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ABSTRACT

This volume is the fourth module, "Enforcement," of the evaluation report documenting how States met the requirements of Title I of the Elementary and Secondary Education Act of 1965, as amended in 1978, and identifying exemplary State management practices and documents. The module begins with a history of enforcement under Title I up to its replacement by Chapter 1 of the Educational Consolidation and Improvement Act. The next section on continuation plans presents discussions on audits in two parts: withholding payment, and complaint resolution. The third section of the module reviews States' past practices, particularly as they may be relevant to future audit requirements. According to data collected, almost all States will need to modify their practices to conform to regulations. The discussion then turns to a review of the compliance areas that were reportedly audited by States. Some form of compliance auditing appears to have been conducted in 43 States, and the majority of States audited only 5 of the 7 requirements covered by auditing regulations. Finally, this section presents 17 exhibits, selected from those supplied by States, of portions from past audit materials using different compliance areas to demonstrate the audit report formats used. (MLF)

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# A Study of State Management Practices:
## Looking Back at Title I and Toward Chapter 1

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## MANAGEMENT MODULE: Enforcement

Kim E. Putman

August 1982

EA 015 515

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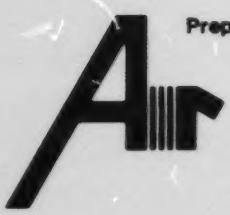

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# MANAGEMENT MODULE: ENFORCEMENT

Kim E. Putman

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  Agnes Frye and Carolyn McFarlane reviewed state materials for inclusion in the management modules.

  Kim Putman and Judith Flagle, with the assistance of the report authors, coded the data from the initial telephone interviews.

Pat Thompson, Chris Petersen, Betty Smith, and Judy Steenson coded the district-level data and the data collected onsite from state agencies.

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Barbara L. Bessey
Director

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## Introduction

This management module is one of four produced by the State Title I Management Practices Study to provide information on various options that states may use to manage their Chapter 1 programs. The four modules are on the following topics:

- Application Approval,
- Monitoring,
- Parent Involvement, and
- Enforcement.

Each management module contains examples of materials produced by Title I coordinators, their staff, or their districts as part of their administration of the Title I program.

Chapter 1 of the Education Consolidation and Improvement Act replaces Title I of the Elementary and Secondary Education Act. Under Chapter 1, more management decisions are left to states. However, some states will have fewer state administrative funds under Chapter 1 than they did under Title I. These states may have to cut back on their members of staff, which may mean that staff with specialized expertise—in monitoring or parent involvement, for example—will be let go in favor of more "generalist" types of staff. Because of this potential loss of Title I experience, four management modules were developed to present a picture of some of the more creative practices and approaches used in past administration of Title I programs. While some of these requirements are not present in Chapter 1 or not included to the same extent as they had under the 1978 Title I statute (Public Law 95-561), the results of the State Management Practices Study indicate that most of the Title I coordinators reported plans to continue activities in these areas under Chapter 1 (Bessey, Brandt, Thompson, Harrison, Putman, & Appleby, 1982). It is hoped that the practices and examples included in these management modules can be adopted or adapted by interested states at minimal cost, or that states wishing to develop new practices may find some successful past examples presented herein after which these new practices can be modeled.

## Content of the Management Modules

Each module is organized into three sections:

- a brief history of the management responsibility from Title I to Chapter 1,
- states' preliminary plans for operating under Chapter 1 as collected by the State Management Practices Study through in-depth telephone interviews with 49 Title I coordinators and through follow-up interviews conducted onsite to a nationally representative sample of 20 states, and

- examples of successful materials and practices used by states under Title I.

## Selection of the Examples for Inclusion in the Management Modules

As part of the State Management Practices Study, all state agencies receiving Title I funds were asked to send AIR materials, documents, handbooks, forms, applications, instructions, rules, checklists, and so on that they used in their administration of Title I programs. These materials were supplemented with other materials collected by the U.S. Department of Education, such as the Monitoring and Enforcement Plans, and specific materials solicited by the study staff that surfaced during the telephone interviews or the onsite visits.

All of the materials and examples included in these modules are noteworthy—they were selected from thousands of documents collected from states. In some cases, the choices were difficult, since several states had similar materials that were all considered to be exemplary. The final materials were selected on the basis of:

- their interesting or unusual content,
- their interesting or unusual format,
- ease of reproduction, and
- a desire to present a variety of techniques and materials.

It is important to emphasize, however, that some very successful practices or materials from states may have been overlooked—either because they were not submitted to AIR as part of the study's initial requests for materials or because an attempt was made to select materials from the largest number of states possible to ensure greater variety.

## Use of the Management Modules

It is intended that the materials and examples included in each module will stimulate state Chapter 1 staffs to generate new and creative ideas for successful management of their Chapter 1 programs. Some of the examples are presented in their entirety for ease in xeroxing if desired. Other examples are merely illustrative of a particular point or practice. In any case, states are encouraged to contact the Chapter 1 offices in state agencies that developed the materials to request more information. A list of the addresses for each of the states for which examples are included in the modules is presented as Appendix A for informational purposes.

## I. The History of Enforcement: ESEA Title I to ECIA Chapter 1

> "A fundamental tenet of a democratic society holds that governments and agencies entrusted with public resources and the authority for applying them have a responsibility to render a full accounting of their activities. This accountability is inherent in the governmental process..."
>
> (House Committee on Education and Labor, H. Res. 423, 1979, p. 230)

While states' actual management of their enforcement responsibilities has varied, there are activities common to most. These have been primarily based upon previous requirements, past good practices, and standards of quality within the audit profession. Generally, a state enforcement system may include procedures for:

- review and approval of sub-recipient (LEA and state agency) applications;[1]
- financial and compliance audits of both recipient (SEA) and sub-recipient activity;
- review and processing of sub-recipient audit reports, including procedures for resolution of identified audit exceptions;
- requiring repayment or withholding of federal funds, depending upon the nature of the identified violation;
- resolution of complaints which may inform the SEA of sub-recipient non-compliance; and
- apprising the cognizant Federal agency of major areas of non-compliance in SEA or sub-recipient activity, especially in cases of waste, fraud, and abuse.

While not viewed by all states as an enforcement activity, monitoring of sub-recipients may also inform state staff of problem areas which, if not corrected, may be referred to audit staff for review.[2]

In appropriating funds under former ESEA Title I, Congress vested responsibility at three distinct levels for ensuring that the requirements

---

[1]LEA application approval is presented in a separate module (Putman, 1982) due to its length and complexity.

[2]Monitoring is addressed in a separate module (Appleby, 1982). In addition, monitoring is discussed at length in the study's final report (see Bessey, Brandt, Thompson, Harrison, Putman, and Appleby, 1982).

and, ultimately, the intent of the program were followed. The U.S. Department of Education was established as the grantor of funds requiring the development, monitoring, and enforcement of regulations that guide and direct program implementation by grantees (usually states) and sub-grantees (usually LEAs). States are similarly responsible for local school districts and other sub-recipients.

This three-tiered administration shared the responsibility for preserving program purpose at all levels of involvement and provided for enforcement of compliance by a proximate and knowledgeable authority (i.e., states were the primary enforcers of LEA compliance thereby preserving the intent of the program legislation).

Preserving the intent of the program thus necessitated the accountability of program staff to their grantor, their public, and the Congress. A number of mechanisms were provided in the law for maintaining this accountability at all levels. Among these were application approval, audits and audit resolution, withholding of funds, and complaint resolution. While it may effectively be argued that enforcement alone has not caused the significant levels of compliance that have existed in the program to date, enforcement activities and the threat of sanctions for non-compliance have influenced program practices (Hill, 1979; Goettel, Kaplan, & Orland, 1977). Each one of these enforcement sections is reviewed briefly below.

## Audits and Audit Resolution

The primary mechanism for Title I enforcement is the auditing. Auditing of Title I projects has two primary purposes--to determine fiscal accountability and program compliance. Fiscal audits assures that federal funds are properly expended and accounted for. Program compliance audits determine that federal programs are operating in conformance with applicable laws and regulations. A third purpose of Title I audits is to determine the efficiency and economy of program operations. The end result of an audit of federal programs usually includes (1) the determination of whether the financial statements are presented fairly in accordance with generally accepted accounting principles, (2) the determination of whether the organization is in compliance with federal laws and regulations, (3) recommendations for corrective action and for strengthening the management systems, and (4) a request for repayment of misspent funds, if necessary, commensurate with the exceptions noted.

### Previous Auditing Requirements

Several documents directed states' audit practices under Title I. These included:

- General Education Provisions Act (GEPA) and regulations;
- P.L. 95-561 of 1978;
- OMB Circular A-102P of 1979;

- GAO's Standards for Audit of Governmental Organizations, Programs, Activities and Functions;
- GAO's Guidelines for Financial and Compliance Audits of Federally Assisted Programs;
- Education Division General Administrative Regulations (EDGAR) of 1980;
- 1981 Title I Regulations;
- OMB's Questions and Answers on the Single Audit Provisions of OMB Circular A-102, 1981; and
- OMB Compliance Supplement, 1980.

Each of these is reviewed separately to provide historical perspective.

GEPA. Prior to the enactment of the 1978 Title I statute, education administrators were bound by the audit requirements in the General Education Provisions Act (GEPA) and the General Provisions for Programs Regulations (GPPR), which contained general requirements applicable to all federally funded education programs.

Part 100b of GPPR (1973) related to state administered programs and included requirements for financial management and accountability, allowable costs, monitoring and reporting, and subgrantee compliance.

Section 100b.301(h) specifically required that audits be made by the state agency or subgrantee to determine fiscal integrity and compliance with applicable requirements of the grant or subgrant at least once every two years. While agencies that received federal funds had to be audited every two years, auditors needed only to sample the agency's transactions or programs, and Title I would not necessarily be included every time an audit was conducted of that agency.

P.L. 95-561. Both the House and Senate reports on the 1978 Education Amendments discussed previous findings that state and local agencies were in non-compliance with audit requirements, particularly regarding the conduct of compliance audits. As a result, Congress decided to clarify and place within the 1978 Title I statute certain specific audit responsibilities. The 1978 Title I legislation, for the first time, contained specific requirements for audits of Title I within Section 170.

Section 170 of the 1978 Title I statute directed states to provide for audits of Title I expenditures to determine fiscal integrity of grant and sub-grant financial transactions and compliance with applicable requirements. The 1978 law did not specify the frequency of audits. (This issue was later addressed by regulation.) States were required to establish procedures for timely and appropriate audit resolutions, including a process for repayment of misspent or misapplied funds. The 1978 statute further directed ED to establish standards for audit resolution

procedures of states. In addition, Section 171 required states to submit to ED a monitoring and enforcement plan (MEP) that would specify the aforementioned procedures.

A-102P. In October 1979, the Office of Management and Budget published "Circular A-102; Uniform Administrative Requirements for Grants-in-Aid to State and Local Governments, Attachment P-Audit Requirements" (referred to as A-102P). The attachment was a result of an initiative by then President Carter to improve the auditing of federally assisted programs through increased audit coordination between federal agencies and greater reliance on audits to be made by state and local governments. OMB Circular A-102P is a final policy of the Executive Branch of the Federal Government and is directed at federal agencies (44 FR 60958, 1979). It communicates that it is the Administration's policy that federal agencies require, through regulation, that state and local governments receiving federal funds have audits conducted in conformance with A-102P stipulations.

A-102P was not previously required of SEAs and LEAs through ED regulation; however, audits conducted in conformance with A-102P have been considered in compliance with audit requirements. As a result, some states began to modify audit practices in terms of A-102P stipulations. The impact of A-102P will increase under Chapter 1.

A-102P provides for independent audits of fiscal and program compliance on an organization-wide rather than grant-by-grant basis.

> Such audits are to determine whether (a) financial operations are conducted properly, (b) the financial statements are presented fairly, (c) the organization has complied with laws and regulations affecting the expenditure of federal funds, (d) internal procedures have been established to meet the objectives of federally assisted programs, and (e) financial reports to the federal Government contain accurate and reliable information.
> (44FR 60959, 1979)

In further explanation of the compliance audit, A-102P requires an examination of the:

> systems established to ensure compliance with laws and regulations affecting the expenditures of federal funds...
> (44 FR 60959, 1979)

In addition, the audit examination must determine whether

> Federal funds are being expended in accordance with the terms of applicable agreements...
> (44 FR 60959, 1979)

A-102P requires that audits be made at least every two years. SEAs and LEAs may arrange for independent audits and prescribe audit scope, consistent with A-102P, according to their own procedures. Any additional audit

work beyond that required by A102-P, including federal audits, is to build upon work already done. A-102P contains further requirements relating to the audit report and the responsibilities of the federal agencies overseeing the audit functions.

Standards. In addition to its own specifications, A-102P stipulates that audits be conducted in accordance with General Accounting Office's (GAO) Standards for Audits of Governmental Organizations, Programs, Activities, and Functions, (Comptroller General, 1981), the Guidelines for Financial and Compliance Audits of Federally Assisted Programs, (Comptroller General, 1980), any compliance supplements approved by OMB, and generally accepted auditing standards. The Standards for Audit, first published in 1972, provides background information and definitions of concepts and terms, and prescribes specific procedures, standards for quality work, and reporting guidelines. It describes three possible elements of audit scope: financial and compliance audit, economy and efficiency audit, and audit of program results. Most relevant to A-102P is the first, financial and compliance audit, and the definition contained within the Standards is consistent with that contained in A-102P.

The Standards for Audit provides little new insight toward an understanding of compliance auditing, repeating that the audit determines

> whether there is compliance with laws and regulations which could materially affect the entity's financial statements.
>
> (Comptroller General, 1981, p. 13)

While this concept is explained later in the publication, it still provides little information helpful in planning the scope of audits for individual programs.

> Specifically, the auditors are to satisfy themselves that the entity has not incurred significant unrecorded liabilities (contingent or actual) through failure to comply with, or through violation of, laws and regulations.
>
> (Comptroller General, 1981, p. 25)

As noted in the discussion of A-102P, it is left to the state or local government requesting an audit to determine and prescribe the specific scope of the audit prior to the start of audit. (The minimum requirements to be audited for compliance were later prescribed in the 1981 Title I regulations. In addition, both the House Report and Senate Report on P.L. 95-561 in 1978 indicated that the minimum scope of Title I compliance audits should include target area selection, selection of children to be served, supplemental use of funds and prohibition against general aid.)

The standards contained in this GAO document also deal with auditor qualifications, independence, due professional care, and scope impair-

ments. The issue of independence of the auditor, as prescribed by A-102P, has received a high level of attention by states.

> In all matters relating to the audit work, the audit organization and the individual auditors, whether government or public, must be free from personal or external impairments to independence, must be organizationally independent, and shall maintain an independent attitude and appearance.
>
> (Comptroller General, 1981, p. 17)

Independence is considered critical not only in order that auditors' judgments and recommendations be impartial but also that they be viewed as impartial by outside parties interested in audit results.

In addition to the detailed considerations of auditor independence presented within the Standards for Audit, the publication refers the reader to the AICPA Code of Professional Ethics.

Guidelines. The Guidelines for Financial and Compliance Audits of Federally Assisted Programs (Comptroller General, 1980) was the second document referenced by A-102P. The 1980 publication of the document (currently under revision) provided information to assist the auditor in planning the audit, studying internal control, and testing procedures for fiscal audit. The document provided several relevant appendixes, including a fiscal questionnaire and documentation guide, illustrative financial statements, and OMB Circular A-102P. Particularly relevant to the foregoing discussions is the chapter on compliance audits. While the Guidelines repeated many of the definitions of compliance auditing cited herein, it went further in referencing requirements to be checked in determining compliance.

> Three of the most important requirements are recipient eligibility, coverage of services, and matching requirements. If funds are used to provide services not included in the grant award, ...the total amount of the award may have to be returned to the grantor agency.
>
> While these requirements may not cover all significant compliance requirements, they do include some of the most important ones and their verification at least would indicate that funds were used for their intended purpose... Other requirements that may be applicable include maintenance of effort, indirect cost rate determination, and allocation and cost principles.
>
> (Comptroller General, 1980, p.9)

Since A-102P requires the conduct of audits in accordance with the Guidelines, states had to consider the above specifications in planning the scope of their audits.

EDGAR. In 1980, HEW published the Education Division General Administrative Regulations (EDGAR). These were subsequently renamed the Education Department General Administrative Regulations as a result of the Department of Education Organization Act.

Section 100b.700 required SEA and LEA compliance with applicable mandates, plans, and applications. Section 100b.702 required SEAs and LEAs to use fiscal control and fund accounting procedures that ensure proper disbursement of, and accounting for, federal funds.

Section 100b.702 also referenced 45 CFR Part 74, Subpart H, Standards for Grantee and Subgrantee Financial Management Systems. Section 74.61(h) required audits in conformance to GAO's Standards in order to examine, on an organization-wide basis, the fiscal integrity of financial transactions and compliance with the terms of the award for those programs tested. The regulation required audit frequency of once every two years, procedures for timely and appropriate audit resolution, and provision of audit reports to a regional HEW Audit Agency office. (45 CFR Part 74 has since been revised as 34 CFR Part 74, discussed later in this module.

Section 100b.730 of EDGAR required both SEAs and LEAs to keep specific records including those necessary to facilitate effective audits. In addition, Section 100b.731 required the retention of records which would demonstrate compliance with program requirements.

Title I regulations. In January 1981, ED issued regulations on the 1978 Title I statute. The issuance of regulations was delayed for several reasons. According to House Hearing records, the 1979 Notice of Proposed Rulemaking was delayed due to lack of clarity and existence of errors in the proposed regulations. These proposed regulations had been an attempt to write rules in "common sense," "non-bureaucratic" language (House Resolution 423, pp. 3-4). In an effort to be responsive to criticism of that method, a second Notice of Proposed Rulemaking was issued in 1980, and these regulations were made final in January 1981. When issued as final regulations in 1981, they clarified and expanded upon the provisions of the 1978 legislation. President Reagan's administration, however, delayed the effective date of these regulations until 30 March 1981 to permit further review. ED then changed some portions of these regulations to guidelines as of the effective date. It is important to note that, during the time period 1978 until 1981, states also operated under directions received from ED through program directives, program reviews, and telephone conversations.

Section 200.190 of the 1981 regulations required audits for both fiscal integrity and program compliance. Compliance audits were to include review of the following Title I requirements where applicable:

- designating school attendance areas;
- children to be served;
- fidelity of project to the LEA application;

- supplement, not supplant;
- prohibition regarding general aid;
- private school participation;
- comparability;
- maintenance of fiscal effort; and
- excess costs.

In addition, audits were generally to be conducted once every three years by independent auditors. Independence was defined as employed by the state but outside the Title I administrative unit or employed by a private firm that is supervised by the state.

Sections 200.191 through 200.196 related to audit resolution, appeals, repayment, use of repaid funds, and collection actions.

Questions and Answers. OMB issued Questions and Answers on the Single Audit Provisions of OMB Circular A-012 in December 1981 that addressed several questions raised by A-102P. This document indicated that states are responsible for insuring that sub-recipients conduct audits in accordance with A-102P, review LEA audit reports and take any appropriate follow-up measures. Correspondingly, during an audit of the state agency, the auditor is to:

a. review the recipient's [SEA] system for obtaining and acting on subgrantee [LEA and state agency] audit reports;

b. test to determine whether the system is functioning in accordance with prescribed procedures; and

c. comment on the recipient's [SEA] monitoring and disbursing procedures with respect to subgrantees [LEAs and state agencies, if warrented by the circumstances]. Reported questioned costs require consideration for materiality, possible adjustment of financial statements, and possible footnote disclosure.

(Financial Management Board, 1981, pp. 5-6)

OMB Compliance Supplement, 1980. In August, 1980, OMB issued a compliance supplement that provided guidance for audits of the 60 largest federal programs. With regard to Title I, the document described the authorization, objectives of the program and the major compliance features. These included the uses of funds and use restrictions relating to instruction and services, applicant (SEA) eligibility, and beneficiary (LEA Title I programs) eligibility.

Summary. The impact of this multiplicity of audit mandates and guidance was confusion over required procedures of states and varied practices among the states. To complicate this problem, enforcement of

audit requirements was inconsistent. For example, compliance auditing and independence of auditors were two long-standing requirements that were ignored by some states. In addition, many states previously questioned the applicability of A-102P requirements to their LEA Title I programs. States expressed frustration over past audit requirements and procedures. For Chapter 1 programs, however, the requirements for auditing sub-recipients are intended to reduce burden and increase coordination of audit activities.

Future Auditing Requirements

Guidance related to auditing Chapter 1 programs is available from the following sources:

- ECIA of 1981, Chapters 1 and 3;
- 1982 Chapter 1 regulations;
- 34 CFR Part 74.62;
- OMB Draft Compliance Requirements;
- GAO's new Draft Audit Guide; and
- GAO's Standard for Audits of Governmental Organizations, Programs, Activities, and Functions.

Each of these documents is briefly reviewed below.

ECIA of 1981. Chapter 1 of ECIA is far less prescriptive regarding audit procedures than Title I. Section 556(b) of the new statute requires that LEAs

> ...keep such records and provide such information to the state educational agency as may be required for fiscal audit.

This provision does not specifically indicate audits by the SEA; however, Section 596(a) of ECIA Chapter 3 (General Provisions) incorporates Section 435(b)(5) of GEPA, which requires

> ...that the state will use fiscal control and fund accounting procedures that will ensure proper disbursement of, and accounting for, Federal funds paid to the state...

While this is the extent of references to auditing Chapter 1 programs, Section 591 of Chapter 3 authorizes ED to

> ...issue regulations...relating to proper fiscal accounting for funds appropriated under this subtitle...[and]... which are deemed necessary to reasonably insure that there is compliance with the specific requirements and assurances required by this subtitle.

The Secretary is considering the issuance of an amendment to 34 CFR 74.62, which will address the requirement of an audit plan in Section 434(a)(2) of GEPA. Section 434(a)(2) of GEPA requires states to submit to ED a plan for monitoring and enforcement of compliance by local agencies with federal requirements, including independent audits. If issued, this amendment would apply to Chapter 1.

Chapter 1 regulations. ED released final regulations for Chapter 1 on 29 July 1982. The regulations provide some guidance for SEA planning. One of the major changes in enforcement activity provided in these regulations is that the provisions of EDGAR; Code of Federal Regulations (CFR) 34, Part 74 Administration of Grants, except for Section 74.62; and Part 76 State Administered Programs will not apply to Chapter 1. Instead, states may apply "equivalent" procedures of their own for financial management and control of their Chapter 1 program. However, states continuing to use the provisions in EDGAR will be considered to be in compliance with the accountability provisions of Chapter 1 (47 FR 6586, 1982).

Sections 200.56 and 200.57 of the regulations relate to recordkeeping requirements, audits, and access to records. Section 200.56(b)(2) requires state and local agencies to keep

> other records that are needed to facilitate an effective audit of the Chapter 1 project and that show compliance with Chapter 1 requirements.

Section 200.57(b) requires that any state or local governement that recieves Chapter 1 funds conduct audits in conformance with requirements of 34 CFR 74.62

34 CFR Part 74.62. By reference, EDGAR incorporated the general regulation for the administration of grants (34 CFR Part 74). Section 74.61 (h) set forth specific audit standards for all grant programs, including Title I. This 1982 amendment to EDGAR provides for audit requirements established in OMB Circular A-102 Attachment P: the conduct of audits on an organization-wide basis rather than a grant-by-grant basis, the requirement for fiscal and program compliance audits, audits at least once every two years, and the use of independent auditors.

Organization-wide auditing has become known as the single-audit concept. This type of audit practice permits an LEA to arrange for one audit of all its federal education programs to be conducted simultaneously by a single auditor (or firm), thereby reducing duplication of effort and disruption of local practice. Guidance on implementation of A-102P was provided to the State Management Practices Study by a regional Inspector General for Audit in Region VII. His memorandum is presented in Figure 1.

MEMORANDUM

To: Kim Putman
State Management Practices Study

From: Rodney Small
Regional Inspector General, Region VII
OIG Office of Audit

Re: A-102P Audits

The various Inspector Generals are required as part of their responsibilities as "Cognizant Agency" to provide guidance to recipient organizations and their independent auditors on how to satisfy the audit requirements imposed by OMB Circular A-102P.

At the onset of its relationship with a recipient organization, a cognizant audit agency should communicate with recipient organization officials and their auditors to foster an understanding of the requirements of Attachment P. Ideally, such communication should occur on a face-to-face basis; however, written communications may effectively be used to accomplish this objective. This initial communication should be designed so that the recipient organization and its auditors clearly understand what their responsibilities are under Attachment P. At a minimum, the following topics should be discussed "up front:"

a. The recipient organization and/or its auditors should have in their possession all the reference material they need to properly conduct the audit (i.e., Attachment P itself, and the publications cited in Paragraph 5, Attachment P).

b. The recipient organization should have a clear understanding of the qualifications requirements for auditors prescribed by the GAO Standards, Chapter IV. They should also understand that the auditor should be engaged in accordance with procedures which are in compliance with OMB Circular A-102, Attachment O and Paragraph 16 of Attachment P. These understandings will help ensure that the recipient properly engages a qualified auditor.

c. The recipient organization should clearly specify in its engagement agreement with the auditor that the audit will include the requirements of OMB Circular A-102, Attachment P, and that all Federal awards will be included in the scope of the audit in accordance with Attachment P requirements.

d. Among the matters for which cognizant audit agencies will, upon request, provide technical assistance are:

   (1) compliance requirements for grants both included and not included in compliance supplements approved by OMB; and

Figure 1. Memorandum on Implementation of A-102P

(ii) assistance to auditors concerning the representative test of charges to Federal grants required by OMB Circular A-102, Attachment P, Paragraph 7.

e. The auditor who will perform the audit should clearly understand that Attachment P audits require the expression of opinions and inclusion of comments in audit reports or management letters which go beyond the standard opinions and comments usually presented in audit reports.

The "up front" discussions with the recipient organization and its auditors should also include discussion of:

(i) who to contact when questions arise;

(ii) when the audit report will be submitted; and

(iii) how, to whom, and how many copies of the report will be submitted.

Figure 1. (continued)

OMB Draft Compliance Requirements. In February 1982, OMB, in conjunction with AICPA, prepared a draft of a new compliance supplement to replace the 18 August 1980 OMB compliance supplement (Reed, 1982). This document, which is expected to be issued in final form late in 1982, will provide for the specific compliance areas to be tested and audit procedures to be used during a compliance review. In the current draft, the Chapter 1 program mandates specified for review include:

- selection of attendance areas, Section 556(b)(1);
- annual needs assessment, Section 556(b)(2);
- private school participation, Section 557(a);
- maintenance of effort, Section 558(a);
- supplement not supplant, Section 558(b);
- comparability of services, Section 558(c); and
- prohibition against general aid to education, Section 555(c).

The final compliance supplement will cover over 60 major Federal programs, including Chapter 1. These 60 programs are to be tested on every audit conducted. Other federal programs may be tested on any audit but should be examined over at least a fouror five-year period.

GAO Standards. In addition to its own specifications, A-102P refers to the GAO Standards for Audit of Governmental Organizations, Programs, Activities and Functions, previously reviewed (Comptroller General, 1981). Guidance provided in the Standards includes definitions of commonly used audit terms and concepts, descriptions of procedures to be used in planning, conducting and reporting the audit, standards for the quality of the auditor's work, and formats for reporting.

GAO's Draft Audit Guide. The Guidelines for Financial and Compliance Audits of Federally Assisted Programs is currently under major revision (Task Force, 1982). The final document is expected to be issued in October 1982. The "draft" of this document indicates that it will be of great assistance in conducting financial and compliance audits of federally assisted programs. This document identifies the specific reporting requirements required by OMB Circular A-102P as well as provides detailed exhibits of how to satisfy these requirements. In addition, this document provides other specific guidance for the independent auditor regarding how to "plan" for the single audit, and it indicates what is expected by the Federal Government as the minimum "scope" requirements for a single organization-wide audit. This, in conjunction with the compliance supplement discussed earlier, should clear up many uncertainties about the audit requirements specified by OMB Circular A-102P.

It is quite clear that the requirement for fiscal audit contained within the Chapter 1 statute carries the full force of law. Regulations implementing the requirements of A-102P have been published and apply to Chapter 1.

Withholding of Payments

A second component of the enforcement system that was provided under Title I is the authority to withhold payments of federal funds in the case of violations of applicable law and regulations.

The 1978 Title I statute provided that an SEA notify the LEA or state agency of its intention to withhold part or all of its future funding, after opportunity for a hearing, due to non-compliant activities. Pending the outcome of proceedings to withhold, an SEA could also suspend payments to an agency. Withholding would continue until the SEA was satisfied that the LEA or state agency was in compliance, or until there was in effect a compliance agreement that specified the terms and conditions under which the LEA or state agency would achieve compliance.

The 1981 Title I regulations elaborated on the procedures for withholding, provided for suspension of payments, and permitted the SEA to return withheld funds to the same agency upon achievement of compliance (Section 200.200d) or reallocate the funds to other agencies if the non-compliant agency remained in violation of law (Section 200.386). The regulations further described the use of compliance agreements in order to avoid the withholding action. The compliance agreement could be used only for current violations, and must have included details of the violation(s), actions necessary to achieve compliance, and a schedule for resolving the violation(s) within 90 days.

It is important to note that the agency could not be held liable for repayment of funds spent during the existence of the agreement on non-compliant activities specified in the agreement (Section 200.210c). That is, once the compliance agreement begins, the SEA can no longer withhold funds or request additional repayment for funds spent during the existence of the agreement for the violations covered in the agreement.

One unresolved question involves both repayment and withholding. Might a state have used both sanctions for one violation--repayment for past misexpenditure and withholding to prevent further misexpenditure until the violation has been corrected? Theoretically, an SEA, as a result of an audit, could have required repayment for disallowed costs because of a violation and, if the agency failed to correct the situation, could also have withheld future payments. As part of that action, the SEA could have also suspended payments pending the outcome of the withholding provision. Of course, the agency's application for the succeeding year could not have been approved until corrective actions were taken.

This issue was raised after reviewing states' MEP audit sections and the guidance provided by ED for developing the MEP. The ED model/sample MEP stated that the withholding authority was a possible enforcement mechanism for monitoring, and repayment was the only specified "corrective action" cited for audit exceptions (ESEA Title I Program Directive, 1979). Yet audit exceptions can be monetary or procedural. Monetary exceptions require repayment, while procedural exceptions require corrective actions. However, nothing in the law or regulations directly addressed the authority to use either or both remedies (withholding and

repayment) to address violations, regardless of whether the non-compliance was identified by monitors or auditors.

Chapter 1 includes no specific withholding authority for states, only for ED. However, Section 200.59 of the regulations implementing the Chapter 1 program for LEAs contains the following provision regarding state rulemaking:

> To carry out its responsibilities, and SEA may, in accordance with state law, adopt rules, regulations, procedures, guidelines, and criteria regarding the use of Chapter 1 funds, provided that those rules, regulations, procedures, guidelines, and criteria do not conflict with the provisions of—
>
> (1) Chapter 1;
>
> (2) The regulations in this part; or
>
> (3) Other applicable federal statutes and regulations.

Thus, the SEA does have the authority to adopt reasonable rules consistent with Sections 200.190-200.195 and 200.200 of the 1981 Title I regulations relating to auditing and withholding of payments (Small, 1982).

Complaint Resolution

A third component of the SEA enforcement system authorized under Title I is the SEA requirement to adopt written complaint resolution procedures. While not always associated with enforcement, the statute referred to these resolution procedures as a mechanism to acquire information regarding violations of Title I or other applicable GEPA provisions by receiving complaints and complaint appeals from LEAs and state agencies. Procedures were to include timelines for resolution, onsite investigation (if necessary), an opportunity for hearing, right of appeal to ED, and dissemination of such procedures to interested persons, including parent advisory councils.

The 1981 Title I regulations elaborated on this area, specifying SEA resolution of complaints within 60 days (under normal circumstances) or referral to the appropriate LEA within 30 days. The regulations also described the content of an SEA final resolution of a complaint and provided for an appeal to ED within 30 days of receipt of the SEA's decision (Sections 200.180-200.188).

Regarding future SEA responsibilities, the SEA complaint resolution requirement is absent from both the Chapter 1 statute and the accompanying regulations. However, adoption of complaint procedures at the SEA level is not inconsistent with the intent of Chapter 1.

Summary

It is quite clear that both the Chapter 1 law and its proposed regulations are brief and general; the primary objectives being to reduce regulatory burden and free the schools of unnecessary federal supervision, direction, and control. While it may be argued that lack of prescriptive regulation results in increased administrative flexibility, it may also be argued that Chapter 1 has left program managers with many questions regarding permissible activities, allowable costs, and expected and required responsibilities. For example:

- Question: What specific requirements must be checked in program compliance audits? Answer: State and local fiscal integrity and program compliance, especially those requirements specified in the new OMB compliance supplement?

- Question: Must Chapter 1 programs be represented among transactions tested or sampled under organization-wide audits every time a grantee (SEA) or subgrantee (LEA) is audited (at least every two years)? Answer: Yes. The 60 largest ED programs, as listed in the new OMB compliance supplement and including Chapter 1, must be tested on each financial and compliance audit.

- Question: May states use rulemaking authority to require activities by LEAs, particularly those related to LEA accountability? Answer: Yes. Section 200.59 of the Chapter 1 regulations allow for state rulemaking.

- Question: As trustees of public funds, must states receive and resolve complaints in a timely manner? Answer: Since Chapter 1 is a state-administered program the decision is left to states. Complaint resolution is, however, considered good management practice.

- Question: What enforcement sanctions may states employ to bring LEAs into compliance? Can ongoing SEA desk-auditing of LEA requests for reimbursements for unallowable costs, coupled with technical assistance to correct the situation, serve a similar function? Answer: SEA sanctions remain virtually the same as under Title I.

While many of the requirements for auditing have not changed, their enforcement is expected to result in modification of some states' practices. The reaction among recipients of federal assistance to the lack of further audit guidance and lack of specificity of program mandates may be fears of audit exception and a resultant wide range of enforcement practices among states. The Chapter 1 regulations address this issue.

> To the extent feasible, the Secretary will give deference to an SEA's interpretation of a Chapter 1 requirement if

> that interpretation is not inconsistent with the Chapter 1 statute, legislative history, and regulations
>
> (47 FR 6585, 1982)

It may be expected that it will be some time before state and local program officials become familiar with Chapter 1 statute, legislative history, and regulations, and that change will be marked with a significant level of anxiety. It is also likely that management practices will change slowly from Title I procedures to Chapter 1 procedures. We may take a lesson from history in considering the possible future of Chapter 1 regulation from ED. In reference to the years following the issuance of the 1965 Title I statute, an unnamed Washington observer reportedly commented about the similarity between that time and the present.

> Because many points weren't clear in the first regulations published for the ESEA after it was passed in 1965, the U.S. Office of Education began issuing a stream of clarifications and program guidelines, particularly for Title I.
>
> Over the years, the guidelines became so voluminous and confusing that states and local education agencies pleaded for self-contained regulations. When they got the regs, they pointed with horror to how long and burdensome they were. Now the idea seems to be to make the regulations short again--so they will again need non-binding guidelines.(Robinson, 1982, p. 4)

ED issued a draft "Chapter 1 Handbook" in March 1982. The handbook contains guidelines for SEAs administering LEA Chapter 1 projects; the guidelines are binding upon ED and non-binding on state and local education agencies.

The contents of the Handbook include reviews of Chapter 1 definitions, state assurances, payments for state administration, LEA requirements, services to local neglected or delinquent institutions, and applicability of other statutes and regulations. Included in the appendixes are copies of ECIA, the Chapter 1 regulations, and OMB Circular A-102P. While SEAs and LEAs will be encouraged to develop alternative approaches to the guidance offered by ED, recipients of funds are likely to listen closely to the words of the body holding the purse strings.

## II. States' Preliminary Plans Regarding Chapter 1 Enforcement Activities

As states plan their Chapter 1 management, coordinators are looking to each other for further information regarding SEA responsibilities, clarification of unresolved issues, and creative ideas for implementation. States have asked members of the State Management Practices Study to report information on other states' plans.

The study addressed the area of SEA enforcement activities under ESEA Title I. State coordinators indicated what enforcement measures they would continue if none were specifically required by law. Since the provisions of Chapter 1 were not in existence at the time of the early interviews, the answers to this question were purely speculative. As part of the interviews conducted onsite to a representative sample of 20 states, state-level personnel were queried specifically about their continuation plans under Chapter 1. By this time, Chapter 1 requirements were a little better understood, and state coordinators were beginning to make plans as to what aspects of their Title I practices would or would not be included as part of Chapter 1 management.

The discussions on continuation plans are presented in two parts for audits, withholding, and complaint resolution. Within each section, the speculative answers provided by the 49 Title I coordinators during the telephone interviews are summarized and interpreted first, followed by information obtained from the 20 state Title I coordinators in response to specific probes about their management plans under Chapter 1.

### Audits and Audit Resolution

To assess the state Title I coordinators' perceptions of the importance of auditing and the future of the activity, they were first asked whether state and federal audits are necessary. Most (N=38) felt that state audits are necessary activities; a lesser number felt that federal audits (N=28) are necessary. Some of these felt that, while audits of LEAs were needed, this responsibility should rest with the states, not the federal government.

On the basis of their answers to the entire auditing section of the interview, coordinators were classified as having auditing attitudes as follows:

- positive toward fiscal audits, positive toward program audits (N=16),
- positive toward fiscal audits, negative toward program audits (N=27), and
- negative toward fiscal and program audits (N=5).

One state could not be classified. These attitudes reflect controversy regarding the merits of fiscal and program audits.

Continuation of fiscal audits was reported by 42 states; continuation of program audits was reported by 15 states. If auditing were not a

requirement for states, only four states felt they would not conduct audits, two saying they could not unless it was a federal requirement. In addition, three of these four reported general dissatisfaction with the audit provisions of P.L. 95-561. This trend also held true among states that did not consider state audits necessary. While some problems may have been expressed by those states planning to continue auditing, most were not generally dissatisfied as a result of their experiences with auditing.

The 42 states that would plan to continue fiscal audits believed maintaining fiscal accountability was important to ensure that Title I funds are spent for their intended purposes. The level of frustration that Title I coordinators experienced in implementing program audits is reflected by the fact that only 15 states said they would continue program compliance audits; another 19 stated strongly that they would not plan to continue program audits. This latter group of states also expressed general dissatisfaction with the audit provisions.

Other audit continuation plans reported by states that they might make if audits were not required include:

- rely on monitoring rather than program compliance audits to ensure accountability (N=20);
- rely on state laws or rules for audits (N=13);
- modify certain audit procedures, such as repayment methods or conduct of onsite visits (N=6);
- place less overall emphasis on auditing (N=6);
- rely on LEA general education audits that also include Title I programs (N=5); and
- audit certain programs only, such as those programs with a history of problems, programs in large LEAs, or those programs requesting audits (N=4).

A sizable number of state Title I coordinators (N=35) also indicated that there were other enforcement sanctions that could be used in addition to or instead of auditing. These sanctions are listed in Table 1.

Table 1

SEA Enforcement Sanctions Other Than Auditing

| Other Enforcement Sanctions | Number of States |
|---|---|
| Use Monitoring | 28 |
| Use Withholding, Compliance Agreements, and Repayment of Funds | 7 |
| Use Technical Assistance | 5 |
| Use State Authority, Rules Laws | 11 |
| Use General LEA Audits | 6 |
| Use Federal Auditors | 2 |

Most preferred to use monitoring to enforce requirements of Title I. This comment is understandable, because monitoring has traditionally been under the control of the state Title I unit, while auditing has not. Fourteen states indicated clearly that they would not want the federal government auditors to replace the state auditors and fulfill the SEA audit function.

These data indicate that, while coordinators feel that fiscal accountability is important, they prefer to use their own Title I program monitors for program review and improvement.

The four states indicating that they would not plan to continue auditing were also the states classified as having the most anti-auditing attitudes mentioned above. They felt that neither fiscal nor program compliance audits were necessary. The states with positive attitudes toward fiscal auditing but negative attitudes toward program audits generally reported an interest in enforcement sanctions other than auditing to ensure compliance with the program.

The multiplicity of past audit mandates resulted in a variety of attitudes toward auditing. Much of the negative comments regarding auditing may be attributed to the confusion that resulted from inconsistent enforcement of audit requirements, as well as lack of knowledge among coordinators of this independent activity.

Follow-up interviews subsequently conducted onsite in 20 states provided an opportunity to discuss specific auditing plans under Chapter 1. Both the Title I coordinators and their auditors, where available, were queried about their future plans.

Most states (N=19) indicated that they would continue fiscal auditing: Only one state was unsure whether or not fiscal audits would con-

tinue. Only a small number of states (N=6) indicated they would continue program audits; the remainder responded negatively or were unsure of future plans in this area. This result is not unexpected for several reasons:

- Most state Title I coordinators (N=32) had less than positive attitudes toward program audits.
- In the absence of federal audit requirements, few (N=15) states indicated they would continue program audits.
- The regulations for ECIA and the revised EDGAR regulations, which required implementation of OMB Circular A102-P, had not been released as of the date of the interviews. Thus, based upon the language of ECIA, several states thought that they would no longer be required to conduct program compliance audits.

It is now apparent that A102-P audits will be enforced for federal program auditing, including Chapter 1 programs. Unstructured follow-up contacts with a small sample of coordinators indicated that plans are currently underway in some states for implementing A102-P. Based upon the data presented here, and the requirements for A102-P described in the introduction, further changes to states auditing practices are expected.

Withholding of Payments

Almost all coordinators agreed that, if there were no enforcement sanction in the law for withholding payments, they would include some as part of their program management (N=34). Seven coordinators said they would use it, because they like or need the authority when dealing with some of their LEAs. Ten coordinators, however, indicated that use of withholding as an enforcement sanction depended upon the presence of a federal/state mandate or approval from state policymakers.

Although most coordinators preferred to have the law regarding withholding of payments unchanged, a sizable number (N=27) felt they could enforce compliance in other ways. Ten coordinators said they could enforce compliance through persuasion, threats, coercion, or bluffing; six suggested enforcing compliance through current activities, such as monitoring or auditing; and three suggested withholding approval of LEA applications. Three coordinators, however, felt that withholding of payments is the best or most effective way to enforce compliance.

State Title I coordinators from a sample of 20 states were queried specifically about their plans to use withholding of payments as an enforcement sanction under Chapter 1.

Most of these coordinators (N=14) felt that they would continue to use withholding as an enforcement sanction, while the remaining (N=6) states indicated they would not or that they were unsure of their plans.

States that planned to continue to use withholding felt strongly that withholding helped strengthen their program management. Some of the comments made by the Title I coordinators include:

> States have the right and the obligation to stop any activities that are illegal or educationally unsound.
>
> Withholding is a useful threat. We will use it in the most extreme circumstances to effect compliance.
>
> Withholding, in some cases, is the only way to bring schools into line.
>
> If you slap the wrists of an LEA once, the others will stay in line.
>
> Withholding of payments is the only leverage a state has to change procedures.

Those states that were unsure of their future use most often cited uncertainty over a perceived lack of federal mandate in this area. In one state, the coordinator expressed frustration over the state's perceived lack of authority in this area. This coordinator said:

> I hope LEAs do not push too hard in this area. While a precedent in the state does exist for a noncompliance action to mean "no money," the precedent was backed by both State Board rulings and federal law. If withholding is not allowed, what do I do with my large LEAs? After I try enforcing with bluffing and coercion and fail, what next?

Only after the interviews were conducted, however, did the study staff learn that ED's interpretation of the rulemaking provision added to the Chapter 1 regulations extended to the use of withholding of payments.

Comments made by the states indicated that they would <u>not</u> use withholding of payments under Chapter 1 include:

> We never used it under Title I and won't start now. We will work out problems before they get to the withholding stage.
>
> We don't plan to withhold payments, because there are fewer things to withhold payments for.

Other than the possibility that states may not be able to withhold funds without an express federal mandate, only two coordinators anticipated problems in carrying out their withholding actions. They both cited problems caused by lack of SEA staff and resources that would be needed to get a procedure into place and then to carry through with it.

## Complaint Resolution

Most Title I coordinators (N=34) reported that they would plan to continue using complaint resolution procedures as part of their program management, even if the law does not require it. Eleven coordinators were adamant about this fact, indicating that they would continue as in the 1978 legislation regardless. Five state coordinators said they would continue as in the 1978 legislation, but without the provision allowing a complaint to go directly to the federal level. Another group of coordinators indicated that, without requirements in federal law, they would rely on their own state's due process statutes or procedures. Five states were willing to set up more informal processes or to accept LEAS procedures in this area. Finally, three coordinators said that they would do whatever their Chief State School Officers wanted.

Specific continuation plans for the use of complaint resolution procedures under Chapter 1 were asked of a sample of 20 state Title I coordinators during subsequently conducted onsite interviews. Fifteen of these coordinators felt that they would continue to incorporate formal or informal complaint resolution procedures in their program management; five were either unsure of their plans or planning not to continue using complaint resolution procedures.

Comments made by the coordinators desirous of continuing complaint resolution procedures in their program management include:

> We will continue as before (resolving complaints) to maintain peace and harmony between the public and local school districts.
>
> We will use current procedures. It's a good idea to have a structure in place inhouse--we're better protected in case of law suits.
>
> We will keep our same procedures, although we have not used them much. The large cities, though, are political enough that they, too, need procedures of their own, regardless of the law.
>
> It is comforting to the public to know that we do have a complaint resolution procedure, although we've practically never received any complaints.
>
> A complaint resolution procedure is in line with our philosophy to permit opportunities for the people to be heard.

Some of the coordinators who planned to continue formal resolution procedures (N=5) planned to rely on their state-developed, (not Title I specific) procedures in the future. They felt their state agency-wide procedure was more effective than a procedure that might differ program by program.

The three states that were unsure of their future continuation plans cited lack of a federal mandate and lack of state authority to require districts to follow written complaint procedures as their primary reasons.

The reactions of two states that planned not to continue with their complaint resolution procedures include:

> This is a trivial issue.
>
> The less said about it, the better.

For both states, the state coordinators had felt that the procedures were used inappropriately in their states by some local individuals or groups that were trying to force a point with the local administrators. Since no other avenue to file complaints was perceived by these individuals as available, they decided to use the Title I complaint procedures that were accepted and made known to the public. The state coordinators were frustrated over the fact that much time and effort had been wasted to resolve formally submitted complaints that were only marginally related to Title I programs. The LEA requirements of "program purpose" and "sufficient size, scope, and quality" apparently were defined vaguely enough by the statute that any groups willing to file general complaints were able to use areas such as these for the basis of their complaints.

It may be due, in part, to situations such as these, or to the amount of paperwork generated by the Title I complaint resolution provision that prompted 12 coordinators to plan to modify their procedures under Chapter 1. While five planned to utilize their state-agency procedures as indicated above, others planned to loosen some of the current requirements as follows:

- relax the time lines (N=2),
- rely primarily on informal (not formal) complaints (N=2),
- require only that LEAs--not the SEA--have complaint resolution procedures (N=1), or
- encourage LEAs to have their own procedures (N=1).

One coordinator indicated that he thought the contents of the complaints under Chapter 1 would differ in that more would be filed by parents and PACs in order to keep their voice in the Chapter 1 program issues.

Only one coordinator anticipated that he would have any problems with continuing to have some sort of complaint resolution policy. Lack of staff time to intermesh the Title I policies with those of the state was used as the primary problem.

## III. Examples of Enforcement Practices and Materials

This section of the module discusses states' past practices, particularly as they may be relevant to future audit requirements. The discussion begins with a review of the extent to which states' practices approximated the conditions of A-102P auditing and the extent of change that are expected in auditing practices as states conform to A-102P.

The discussion then turns to a review of the compliance areas that were reportedly audited by states according to a review of telephone interviews and materials provided to the State Management Practices Study. Finally, this section presents some portions from past audit materials that may serve as example formats for future audit materials.

It is important to keep in mind that the Study did not receive auditing documents from all states. It was often difficult to determine audit practices based upon the materials provided. In addition, the materials provided in some cases do not reflect changes in audit practices as reported by Title I coordinators. Therefore, it is emphasized that those practices discussed or materials presented here may not be the only good examples that states may wish to follow. These are merely representative of the materials received and reviewed.

### A-102P Auditing

It was very difficult to determine from telephone interviews and document reviews the extent to which states' audit practices were in conformance to A-102P. Four primary stipulations regarding A-102P were examined:

- independence of the auditor,
- frequency of audits,
- financial and compliance audits, and
- single audit concept.

Each of these is discussed below.

Independence of the Auditor. While all states apparently used auditors independent of Title I staff to conduct fiscal audits, this was not the case for program audits: Seven states reported that their Title I units conducted program compliance audits, and six reported conducting no program compliance audits at all. Among the remaining states, 36 conducted compliance audits with staff outside the Title I unit. These data indicate that audit practices in 13 states must be modified to obtain conformance with the independence of auditor standard in A-102P.

Of the 43 states conducting program compliance audits, 14 scheduled audits at least every two years. In 28 states, audits were done less frequently, and, in one state, a determination regarding frequency of audits could not be made.

In the future, 21 states must increase the frequency of fiscal audits and, in order to comply with A-102P, program audits must either increase in frequency or begin for the first time in 35 states.

Financial and Compliance Audits. All 49 states interviewed conducted financial audits. In addition, 43 conducted program audits. In the future, six states must begin compliance audits in order to comply with A-102P.

Single Audit Concept It appears from the document review that most states conducted audits on a grant-by-grant basis. While this determination was difficult to make, based on data available, at least five states conducted organization-wide audits. This indicates that as many as 44 states may need to modify their practices to conform to A-102P stipulation of single auditing.

Summary According to data collected, almost all states will need to modify their practices to conform to A-102P. Informal communications with state Title I coordinators indicate that some states have already begun this transition. We know that one state has conducted A-102P audits for two years and is now in the third year. In Exhibit 1, A-102P audit procedures are explained to a school district scheduled for an audit.

Exhibit 1. (Missouri)--Letter Regarding Audit Procedures

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CERTIFIED PUBLIC ACCOUNTANTS
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July 1, 1981

Bates County School District R-4
110 West Olive
Rich Hill, Missouri 64779

Gentlemen:

As you are no doubt aware, the Missouri Department of Elementary and Secondary Education will be requiring, as a part of all school district audits this year, a rather extensive compliance audit of all federal programs in which the district participates which are of a categorical nature. This will include ESEA Titles I, IV-B and IV-C, Public Law 94-142, Vocational Education Act, Comprehensive Employment Training Act (CETA), Adult Basic Education, National School Lunch Program, Follow Through, and The National Energy Conservation Act. See Commissioner Arthur Mallory's letter to School District Administrators of April, 1981 for official notification of the State requirements.

These requirements, which are far in excess for all programs except National School Lunch of those which we have had the following previous years, are a result of new requirements by the Federal Department of Education and the Federal Office of Management and Budget. Specifically, OMB has issued attachment "P" to Circular A102 which applies to all school districts nationally. It requires an addition to the traditional financial audit, a comprehensive compliance audit of all Federal Categorical Aid Programs. It further, through the compliance supplement thereto, requires rather specific in depth testing of certain compliance areas within these programs. The Federal Department of Education is charged with monitoring and implementing this requirement, and as such has worked with the Missouri Department of Elementary and Secondary Education to establish appropriate audit criteria. Under the Federal Department of Education guidelines we would be required to review compliance only for those federal programs which we deem material in relation to the total federal dollars received by the school district. However, the Department of Elementary and Secondary Education, with the permission of the Federal Department of Education, has opted for still a more stringent requirement, i.e. that we audit compliance for all federal programs rather than just those which would be material under the federal definition. This, of course, means additional time and cost. We have corresponded with Mr. Rod Small who is the Regional Inspector General for Audit of the U.S. Department of Education in Kansas City regarding the ability of the State of Missouri to impose additional requirements, and he has advised that it is in fact legitimate for them to do so and that his department will be enforcing these more stringent requirements with respect to all Missouri School Districts.

You should also be aware that the Missouri Department of Elementary and Secondary Education will review all of the audit reports for adherence to the new requirements with regard to compliance audits and federal programs and will reject any that are not in such compliance. This will include the requirement of a separate statement of revenues and expenditures with regard to each project under each federal program appearing in the audit report as well as the detailed compliance steps and the report thereon. DESE will then forward all reports to the U.S. Department of Education for their review and approval. Should a district not receive approval at either level, then the future funding of their federal programs will be in jeopardy. It is our understanding that this means the funding of all federal programs and not just one or two for which the State and Federal governments might find the audit report to be unsatisfactory.

Finally, the personnel of the U.S. Department of Education will be visiting auditing firms during the next fiscal year to review on a test basis their detailed working papers on compliance auditing as well as the financial auditing of federal programs. Our discussions with Mr. Small have indicated that they will review the accountants' working papers on the audits of approximately 20% of Missouri School Districts annually. Thus, it would appear that the accounting firm and the school district would be well advised to do the work required by the detailed guidelines and to appropriately document same. Failure to do so would quite likely result in the district's losing its federal funding and the accountant being subjected to disciplinary action or revocation of his license to practice by the Missouri State Board of Accountancy.

After reviewing the requirements in depth and reviewing the current procedures which we perform in the compliance area for federal programs in our normal school audit and the almost necessity of having the personnel who actually carry out certain federal programs on hand when the compliance testing is performed, we have adopted the following procedures:

1. Compliance auditing of the National School Lunch Program, Comprehensive Employment Training Act (CETA), National Energy Conservation Act, and Adult Basic Education Act will be performed during the conduct of our regular school audit at the times previously set therefor and will be covered by the basic fee which we have already set for the audit.

2. The financial audit of all federal programs will be performed during the regular school district audit at the time previously scheduled and will be covered by the basic audit fee.

3. Compliance auditing for ESEA Titles I, IV-B and IV-C, P.L. 94-142, Follow Through, and the Vocational Education Act will require substantial additional time and procedures and thus will be performed at a time subsequent to the regular school district audit. As our current audit calendar runs through August 21, 1981, and due to the fact that most of these programs will involve observing of classes being carried on under these federal programs, we will schedule the compliance audits with respect thereto beginning after school resumes in the Fall. To facilitate this, we have grouped our compliance audits at school dis-

tricts in similar geographic areas within the same time frame and thus, will hope to minimize the cost to the district of our out-of-pocket expenses for travel, lodging, and food. The date or dates on which we expect to be at your District are indicated in the bottom margin of this letter. Should these dates be totally unsatisfactory, please correspond with us at your earliest convenience and we will attempt to adjust them.

As noted, the compliance procedures on these federal programs will involve substantial additional audit steps pursuant to the requirements adopted recently by DESE and the Federal Government. Thus, we are unable to perform them during our regular audit and will be charging your District an additional fee to perform this compliance audit as per the paragraph in our engagement letter covering additions or substitutive changes in federal program audit criteria. We do feel that it would be unfair to charge the district full billable time for the performance of this compliance audit. Accordingly, we will bill the district on the basis of the actual time required at the rate of $50 per hour plus our actual out-of-pocket expenses for travel, lodging, and meals. This represents a substantial reduction over what the hourly rate would be at our standard rate. Our compliance auditing team will be composed of one partner (either Debbie McCoy or myself) and one of our more experienced staff accountants. Should we bill the district for these personnel at our normal hourly rates, the billing would be between $65 and $70 per hour. It is our understanding that the Department of Elementary and Secondary Education is expecting the imposition of these requirements to double or triple existing school audit fees (Ref. comments made by Mr. Jim Bowers, DESE Internal Auditor at Seminar for School Officials and Auditors on New Requirements in Jefferson City on June 24, 1981). We certainly do not expect this to be the case as may be seen by the hourly rate quoted and the day or days indicated below which we expect will be required to perform the necessary procedures.

In order to minimize disruption of your business and educational functions and to maximize our productivity during the engagement, we are enclosing herewith copies of those items which you should have available for us with regard to compliance auditing of the federal programs. Please disseminate this information to the responsible individuals and make sure that these items are available for us upon our arrival to do the compliance audit. Should you have any questions regarding these materials, please contact either myself or Debbie McCoy and we will attempt to clarify them for you.

As mentioned above, the DESE and federal requirements will dictate that our opinion on school district compliance with federal program requirements and the required schedules of revenues and expenditures on each federal categorical grant program will be included in the district's audit report. Accordingly, we will be unable to complete the district's audit report until after we have performed the required compliance procedures. This will mean that most of you will not receive your reports until sometime in September or early October at the latest. This will be in time to meet the statutory requirement of filing the report with the State

July 1, 1981



prior to October 31, 1981 (Ref. Section 165.121(4) RSMo.). We will, however, at the close of the regular district audit provide you with any adjusting entries and the amounts of the audited fund balances so that you may open your 1981-1982 books on a timely basis as well as preparing any required corrections or amendments to the Secretary's Report.

We appreciate very much your cooperation in this matter. We, as a firm, are not particularly thrilled with the idea of these additional requirements and the attendant cost increases which it puts onto the local school district. Perhaps in future years, as we see a restructuring of the concept of federal aid to education and resulting changes in the regulations thereunder, we can reverse what has become a steady trend of increasing program regulations and auditing thereof. However, for the time being, it appears that we have no choice but to meet the new requirements. Please contact us should you have any questions or need additional information regarding this matter. It is certainly virgin territory for both your District and our Firm and hopefully we will be able to get through it economically with a minimal disruption of your educational process.

Very truly yours,

Cusack, Menne, Brown & Co.

by James E. Brown

Certified Public Accountants
James E. Brown, Partner

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Enclosures

Audit Date(s):

8-31-81

## THINGS SCHOOL DISTRICTS SHOULD HAVE AVAILABLE TO THE AUDITOR

1. Free lunch data by school. Be sure to include private school data.
2. Application document with all amendments and financial reports.
3. Needs assessment data:
   a. enrollment data (public and private)
   b. master lists by school of educationally deprived students
   c. list of drop outs from private and public schools
   d. list of children in special schools or institutions but would otherwise attend the public school
   e. list of children in neglected or delinquent institutions and reside in the public school district.
4. Title I purchase orders - best to sort by school.
5. Comparability reports and back-up work sheets.
6. Payroll information as to salaries and fixed charges for Title I personnel.
7. Previous year's evaluation report. (The state now provides a computer report analyzing the evaluation information by subject area.)
8. List of personnel paid with Title I and where assigned (duties).
9. Time documentation for fractional FTE positions.
10. Inventory record of equipment.
11. Inventory of materials if the district keeps such an inventory.
12. Copy of Title I On-Site Monitoring and Program Review Report completed by DESE Project Supervisor.

## Compliance Audits

Program compliance audits have appeared in several past requirements, including General Provisions for Program Regulations, GAO's Standards and Guidelines, P.L. 95-561 and the Title I regulations, and OMB Circular A-102P, EDGAR. State Title I coordinators were queried about the scope of their compliance auditing. States varied in terms of program areas selected for audit as shown in Table 2. As might be expected, those program compliance requirements relating to financial management and designation of school attendance area requirements were more commonly audited. Those items starred (*) were required by the 1981 Title I regulations to be covered by audits of LEA programs.

Through the telephone interviews and reviews of states' documents, 43 states appear to have conducted some form of compliance auditing; 6 states appeared to have conducted no program compliance audits. While a total of 30 LEA requirements were audited by states, the majority of states audited only maintenance of effort, supplement not supplant, comparability, designating school attendance areas, and children to be served.

Unexpected was the extent to which program compliance audits have not been conducted according to the requirements. It was expected that a requirement as long-standing as this would have been implemented widely. Ten states, however, reported initiating compliance audits of Title I after the 1978 law, and at least thirteen states appear to have been out of compliance with requirements for compliance auditing during the Study's interviews.

Table 2

| | LEA Requirements | # States Auditing |
|---|---|---|
| | **Funds Allocation** | |
| * | a. Maintenance of effort-126(a) | 29 |
| * | b. Excess costs-126(b) | 16 |
| * | c. Supplement not supplant-126(c)&(d) | 32 |
| * | d. Comparability-126(e) | 29 |
| | e. Exclusions from excess costs and comparability-131 | 4 |
| | f. Limited exemption to supplement not supplant-132 | 1 |
| | **Targeting and Eligibility** | |
| * | a. Designating school attendance areas-122 | 37 |
| * | b. Children to be served-123 | 37 |
| * | c. Private school participation-130 | 25 |
| | d. Schoolwide projects-133 | 4 |
| | **Program Design and Planning-124,129,134** | |
| | a. Requirements for design and implementation of programs-124 | 3 |
| | 1. Purpose of program-124(a) | 14 |
| | 2. Assessment of educ. need-124(b) | 6 |
| | 3. Planning-124(c) | 6 |
| | 4. Sufficient, size, scope, and quality-124(d) | 8 |
| | 5. Expenditures related to ranking of project areas & schools-124(e) | 10 |
| | 6. Coordination with other programs-124(f) | 9 |
| | 7. Information dissemination-124(h) | 10 |
| | 8. Teacher & school board participation-124(i) | 15 |
| | 9. Training of education aides124(j) | 13 |
| | 10.Control of funds-124(m) | 5 |
| | 11.Construction-124(n) | 3 |
| | 12.Jointly operated programs-124(o) | 8 |
| | 13.Accountability-127 | 6 |
| | 14.Complaint resolution-128 | 6 |
| | 15.Individualized plans-129 | 8 |
| | 16.Noninstructional duties-134 | |
| | **Evaluation** | |
| | a. Evaluation-124(g) | 10 |
| | b. Sustaining gains-124(k) | 6 |
| | **Parent Involvement** | |
| | a. Parent involvement-124(j) | 10 |
| | b. Parent Advisory Councils-125 | 19 |
| | Other | 6 |

## Audit Materials

The materials presented here are representative of documents provided by states to the Study. For the purpose of presentation, different compliance areas are used to demonstrate the audit report formats used in states' documents. Discussion of all the examples preceeds the exhibits. It should also be noted that not all of the procedures presented in this sections were fully implemented by states.

Exhibits 2A and 2B contain materials prepared by the Arizona Audit Division of the Department of Education. The Audit Guide for Title I programs includes discussions of the purpose and scope of audits; definitions of terms; and samples of the budget pages from the LEA application--the LEA estimated needs form, the LEA financial report form, and a form for SEA review of audit reports. In addition, the bulk of the document contains the audit report form completed by the LEA auditor from information contained on working papers. The materials cover both fiscal and compliance audits. Exhibit 2A is the SEA form for review of the auditor report on target area selection. Exhibit 2B is the corresponding auditor report form for target area selection. This form permits auditor notes on the date of audit, auditor initials, working paper reference, and findings of audit.

Exhibit 3 was provided by the state of California. The Summary Report of audit represents a form for SEA use in summarizing the financial and compliance audit findings, the auditor recommendations, and the LEA response.

Exhibits 4A and 4B present materials from the Colorado Department of Education Auditing Services Unit. Their Audit Guide for Title I programs includes an introduction to the purpose of auditing; state audit plans, standards, scope, and guidelines; discussions of individual compliance areas and fiscal management; and forms for report of audit findings. Attached as an appendix are pages from the LEA application which provide information useful to the auditor. Exhibit 4A is the discussion of requirements related to design and implementation of programs. Exhibit 4B is the portion of the report form for findings in the same area. (The Guide also covers individual program design requirements audited.)

Exhibits 5A and 5B present materials provided by the state of Georgia. The Comprehensive Audit Program covers fiscal and compliance audits of ESEA Title I; Title IV, Parts B and C; the Education of the Handicapped Act, Parts B, C, D, and F; the Appalachian Regional Commission; The Coastal Plains Regional Commission; Vocational Education; and Adult Education programs. The guide includes a pre-audit compliance questionnaire and a form for the audit report of findings. Exhibit 5A is a portion of the questionnaire that covers Title I. Question 7 on this exhibit relates to Exhibit 5B, the report form for maintenance of effort.

Exhibit 6 was prepared by the Office of Business Services, Hawaii Department of Education. The Instructions for Submission of a Proposal was enclosed as Appendix IV in the Hawaii MEP. It is reproduced in full.

Exhibit 7 was provided by the Illinois Title I office. It appeared as Appendix VI of the state's MEP. The Instructions for CPAs includes information on conducting the audit, describes fiscal and compliance requirements audited, and provides report forms. Exhibit 7 is the audit questionnaire, and items numbered 21, 22, 23, and 24 relate to Title I program compliance.

Exhibit 8 was provided by the Division of Title I Audits in the Indiana Department of Public Instruction. The Audit Checklist covers seven LEA program compliance area. Exhibit 8 relates to parent advisory councils and appears to be a report of findings from the audit.

Exhibit 9 was prepared by the Title I Section of the Iowa Department of Public Instruction. The Audit Guide contains ten LEA compliance areas to be covered by the audit. Exhibit 9 relates to private school participation, and appears to be a report of findings from the audit.

Exhibit 10 was provided by the Kansas Title I program. The Title I Compliance Audit form reports findings from the audit and includes a summary and recommendations by the auditor. Exhibit 10 relates to children to be served.

Exhibit 11 was provided by the state of Nebraska. Enclosed as Part IV of the Nebraska MEP, the compliance audit procedures include a brief discussion of the purpose of the audit and covers ten compliance areas. Exhibit 11, relating to the sufficient size, scope, and quality requirement, appears to be a report of findings from compliance auditing.

Exhibits 12A and 12B were prepared by the Office of State Auditor, New Mexico. The Manual Governing Audits includes information on the audit function, audit contract, reporting requirements, and report formats and release. Sample audit reports are included in the Manual as appendixes. Exhibit 12A is the sample quality control questionnaire used by the state to evaluate auditors. Exhibit 12B presents forms for recording accomplishment of pre-audit steps.

Exhibits 13A, B, C, and D were prepared by the Controller's Office, Division of Federal Programs, North Carolina Department of Public Education. The ESEA Title I Audit Report includes pre-audit information and questionnaires to administer with the LEA superintendent and local Title I Director as well as audit information on fiscal and compliance audits and questions and charts to complete for the audit report. Exhibit 13A includes the forms for recording the collection of data to review in audit. Exhibit 13B is the questionnaire for the LEA superintendent and 13C is the questionnaire for the LEA Director. Exhibit 13D is the audit report form that relates to two LEA requirements: recordkeeping and non-instructional duties.

Exhibit 14 was provided by Oklahoma. Enclosed as an attachment to the Oklahoma MEP, the Audit Procedures represent a report of audit findings related to financial as well as eight compliance requirements. Exhibit 14 relates to comparability.

Exhibit 15 was provided by the South Dakota Title I Director. The audit materials include a compliance checklist, an inventory of documents and data to be reviewed, and a report of audit findings of two LEA requirements: expenditures related to ranking and evaluation.

Exhibit 16 was provided by the state of Tennessee. The Audit Working Program includes discussions of audit purpose, objectives, and scope; pre-audit procedures; and a report of financial and compliance findings. Exhibit 16 is a report of findings related to supplement not supplant compliance.

Exhibit 17 was provided by West Virginia. The Format for LEA Audit includes brief procedures and a report of findings from a financial and compliance audit. Exhibit 17 relates to excess costs and supplement not supplant.

Exhibit 2A. (Arizona) (page 1 of 1)

Auditor Report Form--SEA Review

COMPLIANCE - does the report draw conclusions regarding compliance with the following requirements.

| Acceptable | Additional Information Necessary | |
|---|---|---|
| | | **SELECTION OF TARGET AREAS** |
| ☐ | ☐ | 1. The district maintained worksheets to support the low-income figures on the application. |
| ☐ | ☐ | 2. The low-income figures were traced to the source data and it was in accordance with the approved project. |
| ☐ | ☐ | 3. The district can adequately support the target school selection and method used was reasonable to determine the eligibility of the attendance area. |
| ☐ | ☐ | 4. The method of selection has been disclosed. |

Exhibit 2B. (Arizona)

Auditor Report Form--Auditor Review

## VII. SELECTION OF TARGET AREAS

Objective

To assess the reasonableness and accuracy of the method used to determine the eligibility of a school attendance area.

REG: A local educational agency (LEA) may use Title I funds only in school attendance areas that the LEA has identified as having sufficiently high concentrations of children from low-income families to be eligible for Title I services. 34 CFR part 201.51(a)

| Date | Auditor | W/P | |
|---|---|---|---|
| ___ | _____ | ___ | 1. Obtain the LEA worksheets used in selecting the attendance area. Determine if the data included children residing in the attendance area who are attending private schools and dropouts in the area. If the data was not included, determine if the district attempted to obtain such information. Trace the low-income figures per worksheets to the approved project. |

FINDINGS:

| | | | |
|---|---|---|---|
| ___ | _____ | ___ | 2. Trace the low-income figures on the approved project application to the source of data as indicated. If the source of information for calculating low income is not available, determine, from current data, that the low-income percentages reported in the project are reasonable. (Note: An example of current data would be the current years' free and reduced price lunch applications compared to the current enrollment.) |

FINDINGS:

REG: Regardless of the measure of low-income status that the LEA selects, the LEA shall use that same measure for purposes of determining the eligibility of all its school attendance areas and schools under this subpart. 34 CFR part 201.51(b)(3)

If the LEA does not select all eligible school attendance areas as Title I project areas, the LEA shall annually rank its eligible attendance areas from highest to lowest, according to their relative degree of concentration of children from low-income families, and select eligible school attendance areas as Title I project areas, in rank order, beginning with the highest ranking eligible school attendance area until the LEA lacks sufficient Title I funds to serve any additional school attendance areas. 34 CFR part 201.61(a)

| Date | Auditor | W/P | |
|---|---|---|---|
| ___ | _____ | ___ | 3. Determine that the measure or data used to identify the areas of high concentration of children from low-income families is also used to rank the areas. |

FINDINGS:

NOTE: An LEA may choose from several different methods of selecting target areas. Depending on the methods used, not all of the following audit steps need to be performed. Any of the methods may be applied to the district as a whole or to a designated grade span group. However, these groupings must be consistent with the grade spans served by the LEA's schools. (See Attachment I following this section)

REG: Percentage Method

A school attendance area is eligible to receive Title I assistance if the percentage of children from low-income families in that school attendance area is at least equal to the percentage of children from low-income families in the LEA as a whole. 34 CFR part 201.51(d)(1)(i)

| Date | Auditor | W/P |
|---|---|---|
| ___ | _____ | ___ |

4. Using the worksheets obtained in step 1, determine the percentage of children from low-income families in each school attendance area. Determine if the selected attendance areas have as high a percentage of low-income children as the whole district or the applicable grade span group. Trace these percentages to the approved application. If worksheets are not available, determine the percentages using current data and compare them with the approved application for reasonableness.

FINDINGS:

REG: Twenty-five Percent Rule

A local educational agency may designate any school attendance area eligible in which at least twenty-five percent of the children are from low-income families, if the current aggregate amount per pupil to be expended under Title I and funds from a State program which is similar to Title I; should one exist, for the areas served in the preceding year equals or exceeds the amount expended in those areas in the preceding fiscal year. 34 CFR part 201.51(d)(1)(ii)

| Date | Auditor | W/P |
|---|---|---|
| ___ | _____ | ___ |

5. An attendance area with at least twenty-five percent low-income children may be eligible. Determine if the total per pupil expenditure to be expended in the current year from Title I and funds from a State program which is similar to Title I; should one exist, for those areas served in the preceding year, equals or exceeds the amount expended on those areas in the preceding fiscal year.

FINDINGS:

REG: Numerical Method

A school attendance area is eligible to receive Title I assistance if the number of children from low-income families in that school attendance area is at least equal to the average number of children from low-income families per school attendance area in the LEA as a whole. If the LEA groups its school attendance areas by grade spans, the LEA shall determine an average number of children from low-income families per school attendance area in the LEA as a whole for each grade span grouping. 34 CFR part 201.51(d)(2)

| Date | Auditor | W/P | |
|---|---|---|---|
| ___ | _____ | ___ | 6. Using the worksheets obtained in step 1, determine the number of children from low-income families residing in each attendance area. Determine if the number residing in each selected attendance area is at least as large as the average number of such children residing in the whole district or the applicable grade span group. Trace these numbers to the approved application. If worksheets are not available, determine the above using current data and compare these numbers with the approved application for reasonableness. |

FINDINGS:

REG: Combination Basis

The LEA may identify some school attendance areas as eligible by using the percentage method and some by using the numerical method. However, the total number of school attendance areas that the LEA identifies as eligible by using the combination method may not be more than the maximum number of school attendance areas, or school attendance areas plus schools, that the LEA would have identified if it had used either the percentage method or the numerical method. 34 CFR part 201.51(d)(3)

| Date | Auditor | W/P | |
|---|---|---|---|
| ___ | _____ | ___ | 7. If a combination of the numerical and percentage basis is used, trace these calculations to the approved application, and determine that the number of areas selected under this method do not exceed the number that could be designated if only one method had been used. |

FINDINGS:

REG: No-Wide Variance

An LEA may identify all of the school attendance areas in the district or in a grade span grouping as eligible to receive Title I assistance if the variation between the percentage of children from low-income families in the school attendance area with the highest concentration of children from low-income families, and the percentage of children from low-income families in the school attendance area with the lowest concentration of children from low-income families is not more than the greater of (A) Five percent; or (B) One-third of the percentage of children from low income families in the LEA's district as a whole. 34 CFR part 201.51(d)(4)

| Date | Auditor | W/P | |
|---|---|---|---|
| ___ | _____ | ___ | 8. Determine if no wide variance of concentrations of low-income children exists among attendance areas in the LEA. No wide variance exists if the percentage of such children varies between the highest and lowest areas by not more than the greater of five percent or one-third of the percentage of children from low-income families in the district as a whole or the applicable grade span group. Trace these percentages to the approved project. |

FINDINGS:

REG: Incidence of Educational Deprivation

An LEA may rank all its school attendance areas according to their relative incidence of educational deprivation. The incidence of educational deprivation is determined by the percentage or number of children in each school attendance area or school that are identified as educationally deprived through the use of objective measures of educational deprivation--such as standardized achievement tests or other objective tests--that the LEA uniformly applies in all of the school attendance areas.

The LEA may select, as a Title I project area, a school attendance area that ranks lower than another school attendance area on the basis of its relative concentration of children from low-income families if the lower-ranking school attendance area has an incidence of educationally deprived children, as determined above that is 1.2 times the percentage or number of educationally deprived children in the higher-ranked school attendance area, and the LEA that uses this alternative ranking and selection procedure does not provide Title I services in more school attendance areas than the number that would have received Title I services under the procedures of ranking by the concentration of children from low-income families.

An LEA that desires to use the alternative ranking procedures in this section for selecting school attendance areas shall, with the prior consent of the Title I district advisory council, apply to the SEA for permission to use the alternative ranking procedures.

The SEA shall approve such application only if the SEA determines that the LEA's use of the alternative ranking procedures will not substantially impair the delivery of compensatory education to educationally deprived children from low-income families in the school attendance areas and schools that would have been selected in the methods described in the above steps. 34 CFR part 201.66

| Date | Auditor | W/P | |
|---|---|---|---|
| ___ | _____ | ___ | 9. An attendance area may be a target area if it demonstrates to the SEA that the incidence and severity of educational deprivation in that area is substantially greater than in other attendance areas proposed to be designated because of percentage of children from low income families. |

a. Examine the SEA approval.
b. Examine minutes of the District Advisory Council for approval of alternate method.
c. Review the LEA's method of determining educational deprivation for reasonableness.
d. Determine that the services to educationally deprived children from low income families has not been substantially impaired.

FINDINGS:

REG: Percent or Number of ADM

An LEA may identify a school as an eligible school if it is located in an ineligible school attendance area or serves children from more than one school attendance area if it meets one of the following conditions.

(1) The percentage of children from low-income families in ADA at the school is at least substantially the same as the percentage of children from low-income families in the LEA as a whole.

(2) The percentage of children from low-income families in ADA at the school is at least equal to 25 percent of the total number of children in ADA at the school and the LEA has identified one or more school attendance areas as eligible and the schools identified as eligible schools under the procedures in this paragraph meet the requirements in step 5 above.

(3) The number of children from low-income families in ADA at the school is at least substantially the same as the average number of children from low-income families per school attendance area in the LEA as a whole. 34 CFR part 201.52(a)(b)

| Date | Auditor | W/P | |
|---|---|---|---|
| ___ | _____ | ___ | 10. If a school in an ineligible area qualified as a target school, determine that the percentage or number of children from low-income families in ADA of that school is in the same proportion as that of the eligible attendance areas. |

FINDINGS:

REG: Prior Year

An LEA may select a school attendance area or a school to recieve Title I services if the area or school qualified and was selected as a Title I project area or project school in either of the two fiscal years preceding the fiscal year for which the funds will be granted.

The eligibility conferred by the above is valid for not more than two fiscal years.

If a school attendance area or school that was selected as a project area or project school in either of the two preceding years is substantially different from what it was during those years, the LEA may not select that school attendance area or school as a project area or project school on the basis of this section.

If the LEA changes its method of ranking eligible school attendace areas and schools from the method it used during the preceding fiscal year, the LEA may not use the provisions in this section to provide Title I services in more school attendance areas or schools than the number that could have received Title I services under the method of ranking used by the LEA during the current fiscal year. 34 CFR part 201.64

| Date | Auditor | W/P | |
|---|---|---|---|
| ___ | _____ | ___ | 11. If an attendance area does not meet any of the criteria, determine if it met requirements of target schools in either of the two fiscal years immediately preceding the current year. Examine prior approved projects to determine if an area was a target school. |

(NOTE: If the LEA used a different method of target school selection in the previous year versus the current year, it may not use the provision for continuation if the total number of schools exceeds the number of schools which qualify under the method used in the current year.)

FINDINGS:

REG: An LEA may skip an eligible school attendance area or school that ranks higher and select a lower-ranked eligible attendance area or school to be a project area or project shcool to receive Title I services. The LEA may do this if the higher-ranked school attendance area or school is already receiving from non-Federal funds, services of the same nature and scope as the services that would otherwise be provided with Title I funds.

If an LEA skips an eligible attendance area under this section, the LEA shall ensure that the eligible attendance area that is skipped receives State and locally funded services comparable to the State and locally funded services provided to ineligible school attendance areas in the LEA, and comply with section 122(e) of Title I which contains requirements concerning services that must be provided to children attending private schools. 34 CFR part 201.65(a)(c)

| Date | Auditor | W/P | |
|---|---|---|---|
| ___ | _____ | ___ | 12. If an attendance area is ranked high and eligible for Title I services but has a similar program funded from non-Federal funds, that area may be skipped. However, children residing in that area and attending private schools that are not eligible for the non-Federal funded program, may be eligible for programs funded by Title I. Determine if those children have been included in a target area. |

FINDINGS:

| | | | |
|---|---|---|---|
| ___ | _____ | ___ | 13. Examine prior audit reports to determine that prior audit findings have been appropriately resolved and audit recommendations have been implemented. (This step is applicable only if an audit was performed in one of the three preceding fiscal years.) |

FINDINGS:

CONCLUSION:

## ATTACHMENT I

I. Method of Selecting Target Areas

Any one of these methods may be applied to the district as a whole or to any grade span grouping.

A. Percentage Method - An area is eligible if the percentage of children from low-income families is at least equal to the district as a whole or the applicable grade span.

B. 25 Percent Rule - An area is eligible if the percentage of children from low-income families is at least 25% and if the total amount to be expended from Title I and funds from a State program which is similar to Title I; should one exist, for those eligible areas served in the preceding year equals or exceeds the amount expended for those areas in the preceding fiscal year.

C. Numerical Method - An area is eligible when the number of children from low-income families is at least equal to the average number of those children in the district as a whole or the applicable grade span.

D. Combination Basis - The numerical and percentage methods can be combined to select areas so long as the number of areas that would be allowable under either individual method is not exceeded.

E. No Wide Variance - All areas are eligible when the difference in the percentage of children from low-income families between the highest and lowest concentration is not more than the greater of five percent or one-third of the district percentage or that of the applicable grade span.

II. Methods of Selecting Specific Schools not in an Eligible Area

A. Percent or Number of ADA - A school in an ineligible attendance area is eligible if the percentage or number of children from low-income families in ADA of that school is in the same proportion as that of the eligible attendance areas.

B. Incidence of Educational Deprivation - A school with a lower concentration of children from low-income families but a substantially higher incidence of educational deprivation may be selected.

C. Prior Year - An area or school may be designated if it was eligible in either of the two preceding years.

Exhibit 3 (page 1 of 1)

SUMMARY REPORT ON REVIEW OF ANNUAL AUDIT REPORT -- 1980-81

| | | | | |
|---|---|---|---|---|
| DATA | County | | District | |
| | Reviewer | Date | | |

| | | | | |
|---|---|---|---|---|
| OPINION | Unqualified | | | LEA Response |
| | Qualified | | | |
| | Disclaimer | | | |
| | Adverse | | | |

| | | | | |
|---|---|---|---|---|
| SUPPLEMENTARY INFORMATION | | Page Number | Nature of Exception or Recommendation | |
| | Positive Statement - Income and Expenditures by Source of Funds | | | |
| | Average Daily Attendance | | | |
| | Other(Specify Area of Exception) | | | |

| | | | | |
|---|---|---|---|---|
| FEDERAL AND STATE COMPLIANCE CHECKS | Item With Exception | | | |
| | | | | |

| | Page Number | Item Number | Exception or Recommendation | LEA Response |
|---|---|---|---|---|
| INTERNAL CONTROL AND OTHER EXCEPTIONS AND RECOMMENDATIONS | | | | |
| PRIOR YRS. FINDINGS & RECOMMEND-DATIONS | | | | |

Exhibit 4A. (Colorado)

Audit Guide: Implementation Requirements

## Design and Implementation of Programs

In planning Title I programs, the LEA must use appropriate diagnostic procedures to determine the needs of the children to be served. The projects must be of sufficient size, scope, and quality to give reasonable promise of substantial progress toward meeting the special educational needs of the children being served.

The use of Title I funds should be concentrated on a limited number of selected children from project areas and in ways that will enable the LEA to achieve the objectives of the project. The LEA's plans must include procedures for evaluating the project which are consistent with the project's objectives and performance criteria.

Title I regulations require that teachers participating in Title I programs and school board members be involved in the planning and evaluation of all programs. In addition, parents of children participating in the programs are permitted to participate in the establishment of programs and must be afforded opportunities to assist their children in achieving the instructional goals of the programs.

## Children To Be Served

The statute requires that Title I funds be used for educationally deprived children in all eligible attendance areas and who have been selected as having the greatest need for special assistance. In assessing the educational needs of the children to be served, the LEA must identify the general instructional areas on which the program will focus, and determine the special educational needs of participating children with specificity sufficient to facilitate development of high quality programs and projects.

Educationally deprived children may continue to participate in Title I programs even though they may no longer be in greatest need of assistance but are still educationally deprived, or who begin participating in a program but are transferred to a school attendance area not receiving Title I funds.

Audit Guide: Implementation Findings

| Design and Implementation of Programs | Yes | No | Comments |
|---|---|---|---|
| 1. Has the school district identified educationally deprived children in all eligible attendance areas? | | | |
| 2. Has the school district identified the general instructional areas on which the program will focus? | | | |
| 3. Has the school district determined the special educational needs of participating children with specificity sufficient to facilitate development of a high quality program? | | | |
| 4. Has the LEA adopted procedures for evaluating the effectiveness of the programs in meeting the special educational needs of educationally deprived children? | | | |
| 5. Do such evaluations include the collection and analysis of data relating to the degree to which the programs have achieved their goals? | | | |
| 6. Does the evaluation address the purposes of the programs and the results of the evaluation to be utilized in planning for and improving Title I projects and activities in subsequent years? | | | |
| 7. Are teachers and the school board involved in planning the programs and in the evaluation of programs? | | | |
| 8. Are parents of children participating in the program permitted to participate in the establishment of the program, are they informed of the instructional goals of the program and the progress of their children in the programs? | | | |
| 9. Have children in private schools been afforded the opportunity to participate in services comparable to those provided public school children? | | | |

Exhibit 5A. (Georgia) (page 1 of 1)

| COMPLIANCE QUESTIONNAIRE | YES | NO | REMARKS |
|---|---|---|---|
| ESEA TITLE I | | | |
| 1. Who is the ESEA Title I coordinator? | | | |
| 2. Who maintained the ESEA Title I records? | | | |
| 3. Who prepared the ESEA Title I Project Completion Report? (DE Form 375) | | | |
| 4. Who prepared Quarterly Projections of Cash Needs? (DE Form 147) | | | |
| 5. Were separate project ledgers maintained for ESEA Title I?<br><br>If yes, how often were entries posted and balanced to the ledger?<br><br>If no, how were the accounting records set up to prevent commingling of ESEA Title I funds? | | | |
| 6. How were records reviewed to assure that ESEA Title I funds supplement rather than supplant state and local funds. Were there any State or locally funded Title I positions in the year prior to the audit year? | | | |
| 7. How were records reviewed to assure that the school system (through State and local funds) was maintaining its fiscal effort? | | | |

Exhibit 5B. (Georgia)

AUDIT PROGRAM

COMPLIANCE

TITLE I

| PROCEDURE | PROCEDURE NOT APPLICABLE | PROCEDURE COMPLETED INITIALS/DATE | WORKPAPER REFERENCE |
|---|---|---|---|
| 1. Review internal control questionnaire. | | | |
| 2. From page 1 of application and related backup documents, determine that the state and local fiscal effort, for the first and second preceding years, did not decrease more than 5% from the second to the first preceding year. (Workpaper CP-2)<br><br>A decrease of more than 5% requires a waiver of maintenance of fiscal effort from the U.S. Commissioner of Education. | | | |
| 3. Verify the figures on the project completion reports with the project ledgers. (Workpapers CP-3 and CP-4) | | | |

REVIEWED BY _____ DATE _____

APPROVED BY _____ DATE _____

School System _____ Done By _____

FY _____ Title I-Maintenance Of Effort Date _____

| Item No. Series | From the Financial Report DE FORM 46 | 1st Preceding Year FY___ | 2nd preceding Year FY___ |
|---|---|---|---|
| | From Grand Total Column: | | |
| 38 00 | Instruction | | |
| 42 00 | Pupil Services | | |
| 46 00 | Instructional Staff Services | | |
| 48 00 | General Administrative Svcs. | | |
| 52 00 | School Administrative Svcs. | | |
| 56 00 | Transportation Services | | |
| 57 00 | Maintenance and Operation | | |
| 76 00 | Employee Benefits | | |
| | TOTAL | | |
| | | | |
| | Less: | | |
| | Revenues (Net Of Reimbursement For Capital Outlay) from funds granted under | | |
| | ESEA Title I | | |
| | ESEA Title IV | | |
| | National Defense Act (NDEA) | | |
| | Title III | | |
| | Title V-A | | |
| | Economic Opportunity Act | | |
| | Title II | | |
| | National Foundation on the | | |
| | Arts and Humanities | | |
| | Vocational Education | | |
| | TOTAL | | |
| | | | |
| | Allowable Expenditures | | |
| | (line 10 - line 26) | | |
| | Average Daily Attendance | | |
| | | | |
| | Average Per Pupil Expenditure | | |
| | (line 29 ÷ line 30) | | |
| | | | |
| | Comparison Figure | | |
| | (line 33 col.4 x .95) | | |
| | | | |
| | Line 33 column 2 must be greater than line 36 column 4 | | |
| | findings recorded on page CFR-___ | | |
| | | | (N/A or ✓) |

School System _____ Done By _____

FY _____ Title I _____ Date _____

Verification of Project Completion Report to Ledger

| | 1 Project Number | 2 From Project Completion Report | 3 From Project Ledger* | 4 |
|---|---|---|---|---|
| 1 | Beginning Balance | | | |
| 2 | RECEIPTS: | | | |
| 3 | Receipts from Ga. Dept. Of Ed. | | | |
| 4 | Receipts from Other Projects (Footnote) | | | |
| 5 | Receipts - Other (Footnote) | | | |
| 6 | TOTAL RECEIPTS | | | |
| 7 | | | | |
| 8 | Total Receipts and Beginning Balance | | | |
| 9 | | | | |
| 10 | EXPENDITURES: | | | |
| 11 | 3800 Instruction | | | |
| 12 | 4200 Pupil Services | | | |
| 13 | 4600 Instructional Staff Services | | | |
| 14 | 4800 General Administrative Services | | | |
| 15 | 5200 School Administration | | | |
| 16 | 5600 Business Services | | | |
| 17 | 6000 Central Services | | | |
| 18 | 6800 Community Services | | | |
| 19 | 7600 Employee Benefits | | | |
| 20 | 5800 Equipment for Instruction | | | |
| 21 | 5800 All Other Equipment | | | |
| 22 | Indirect Cost | | | |
| 23 | Other (Footnote) | | | |
| 24 | TOTAL EXPENDITURES | | | |
| 25 | | | | |
| 26 | Ending Balance | | | |
| 27 | | | | |
| 28 | Total Expenditures and Ending Balance | | | |
| 29 | | | | |
| 30 | FOOTNOTES: | | | |
| 31 | | | | |
| 32 | | | | |
| 33 | Findings Recorded on Page CFR-___ | | | |
| 34 | | | (N/A or ✓) | |
| 35 | | | | |
| 36 | * Could be more than one ledger in some school systems. | | | |
| 37 | | | | |
| 38 | | | | |
| 39 | | | | |
| 40 | | | | |

School System _____ Done By _____

FY _____ Title I _____ Date _____

Verification of Project Completion Report to Ledger (1)

| | Project Number | From Project Completion Report | From Project Ledger * |
|---|---|---|---|
| 1 | Beginning Balance | | |
| 2 | RECEIPTS: | | |
| 3 | Receipts from Ga. Dept. Of Ed. | | |
| 4 | Receipts from other Projects (Footnote) | | |
| 5 | Receipts - Other (Footnote) | | |
| 6 | TOTAL RECEIPTS | | |
| 7 | | | |
| 8 | Total Receipts and Beginning Balance | | |
| 9 | | | |
| 10 | EXPENDITURES: | | |
| 11 | 3800 Instruction | | |
| 12 | 4200 Pupil Services | | |
| 13 | 4600 Instructional Staff Services | | |
| 14 | 4800 General Administrative Services | | |
| 15 | 5200 School Administration | | |
| 16 | 5600 Business Services | | |
| 17 | 6000 Central Services | | |
| 18 | 6800 Community Services | | |
| 19 | 7600 Employee Benefits | | |
| 20 | 5800 Equipment for Instruction | | |
| 21 | 5900 All Other Equipment | | |
| 22 | Indirect Cost | | |
| 23 | Other (Footnote) | | |
| 24 | TOTAL EXPENDITURES | | |
| 25 | | | |
| 26 | Ending Balance | | |
| 27 | | | |
| 28 | Total Expenditures and Ending Balance | | |
| 29 | | | |
| 30 | FOOTNOTES: | | |
| 31 | | | |
| 32 | | | |
| 33 | Findings Recorded on Page CFR- | | |
| 34 | | | (N/A or ✓) |
| 35 | | | |
| 36 | * Could be more than one ledger in some school systems. | | |
| 37 | | | |
| 38 | | | |
| 39 | | | |
| 40 | | | |

# SPECIFICATIONS FOR

# THE FINANCIAL AND COMPLIANCE AUDIT OF THE

# ESEA·P.L. 95-561 - TITLE I PROGRAM

# DEPARTMENT OF EDUCATION

## INSTRUCTIONS FOR THE SUBMISSION OF A PROPOSAL

Office of Business Services
Department of Education
State of Hawaii

## I. INTRODUCTION

The specifications contained herein are intended to describe the scope and nature of the work required of the Certified Public Accountant (hereinafter referred to as the "Contract Auditor"), who is engaged by the Department of Education, State of Hawaii (hereinafter referred to as the "State"), to conduct (1) a general audit of the financial transactions, book and accounts for the period _____ to _____ (2) an examination of the systems and procedures of accounting, reporting, and operational and internal controls, and (3) general compliance to the regulation governing comparability of services for the period _____ to _____.

## II. SPECIFICATIONS

A. Audit Objectives. The objectives of the audit are:

1. To provide a basis for an opinion by the Contract Auditor on the fairness of the financial statements of the ESEA P.L. 95-561, Title I.
2. To ascertain whether or not expenditures have been made and grants to which the State is entitled to have been received and being accounted for in accordance with the laws, rules and regulations, and policies and procedures of the State of Hawaii.
3. To ascertain the adequacy of the financial and other management information reports in providing officials at the different levels of the agency with the proper information to plan, evaluate, control, and correct program activities.
4. To evaluate the adequacy, effectiveness and efficiency of the systems and procedures of accounting, reporting, and operational and internal controls, and to recommend improvements to such systems and procedures.

3. Audit Scope

1. Generally. The Contract Auditor shall:

a. Conduct a general audit of the financial transactions and accounting records of the P.L. 89-10, Title I, Department of Education, including all the auditing services necessary to satisfy the requirements of the provisions of the Office of Education, Department of Health, Education and Welfare. "General audit" means a test audit of the receipts and expenditures for the period specified; the Contract Auditor is not expected to verify every transaction but may perform a general audit based upon tests and samples. The general audit shall embrace the financial transactions and records for the fiscal year _____ to _____ and shall include tests of the financial data to provide the Contract Auditor with a basis to report on the fairness of the financial statements, on the propriety of the expenditures, and on the accounting of all revenues and other receipts.

b. Examine the existing systems and procedures of accounting, reporting, and operational and internal controls. The Contract Auditor shall identify the deficiencies and weaknesses in the systems and procedures, and make appropriate recommendations for improvements.

c. General compliance to the rules and regulations governing comparability of services for the period _____ to _____.

2. Specific areas of concern. In addition, the Contract Auditor shall examine the reconciliation of the accounting records of the Office of Business Services, Department of Education, with the comparable accounting records of the Accounting Division, Department of Accounting and General Services. The Contract Auditor shall identify the specific

differences in the account funds, including the reasons for such differences.

C. Audit Standards. In conducting the audit and in reporting his findings, the Contract Auditor shall adhere to the generally accepted auditing standards adopted by the membership of the American Institute of Certified Public Accountants, including the following:

1. General Standards

   a. The examination shall be performed by a person or persons having adequate technical training and proficiency as an auditor.

   b. Objectivity and independence in mental attitude shall be maintained in all matters relating to the assignment.

   c. Due professional care shall be exercised in the performance of the examination and the preparation of the report.

2. Field Work Standards

   a. The work shall be adequately planned, and assistants, if any, shall be properly supervised.

   b. There shall be proper study and evaluation of the existing internal control system as a basis for reliance thereon and for the determination of the resultant extent of the tests to which auditing procedures are to be restricted.

   c. Sufficient and competent evidence shall be obtained through inspection, observation, inquiries, and confirmations to afford a reasonable basis for an opinion regarding the financial statements under examination and for recommendations for improvements in accounting, internal control, and reporting systems and procedures.

3. Standards for reporting on financial statements. In reporting his findings and conclusions on the financial statements, the Contract Auditor shall:

a. State whether the financial statements are presented in accordance with generally accepted principles of accounting;

b. State whether such principles have been consistently observed in the current period in relation to the preceding period (provided that the Contract Auditor is in a position to make such a statement);

c. Note any inadequacies in the informative disclosures contained in the financial statements;

d. Express his opinion regarding the financial statements, taken as a whole, or assert that an opinion cannot be expressed with reasons for such assertion. Should the Contract Auditor use the work and reports of another certified public accountant as part of the examination of the financial statements, the Contract Auditor shall clearly indicate the degree of responsibility he is taking with regard to the portion of the work performed by the other certified public accountant.

4. Standards for reporting on systems and procedures of accounting, reporting, and operational and internal control. In reporting his findings and conclusions on the systems and procedures, including the specific areas of concern, the Contract Auditor shall include in the management letter:

a. A statement of the scope and objectives of the systems and procedures examined.

b. All significant findings of weaknesses and inadequacies in the operational and internal controls, accounting and reporting systems and policies, procedures, and practices disclosed as a result of the audit.

c. A disclosure and explanation of any significant differences in account balances between the accounting records of the Department of Education and the Accounting Division, Department of Accounting and General Services.

d. A disclosure of any significant loss, fraudulent use, improper or unauthorized expenditure of funds.

e. Recommendations for improvements.

D. Audit Activities

1. Legal Authority. In ascertaining whether or not the financial transactions of the Department of Education are in compliance with the applicable laws, rules and regulations, and policies and procedures, the Contract Auditor shall, at a minimum, become sufficiently knowledgeable with the applicable sections of the following reference documents:

a. Constitution of the State of Hawaii

b. Hawaii Revised Statutes

1) Laws having general application:

. Chapter 26 - Executive and Administrative Departments

. Chapter 27 - State Functions and Responsibilities

. Chapter 91 - Administrative Procedure

. Title 7 - Public Officer and Employees

2) Laws relating to fiscal matters:

. Chapter 29 - Federal Aid

. Chapter 102 - Concession on Public Property

. Chapter 103 - Expenditures of Public Money and Public Contracts

. Chapter 105 - Government Motor Vehicles

. Chapter 106 - Inventory, Accounting and Disposal of Government Assets

. Chapter 171 - Public Lands, Management and Disposition of

. Title 5 - State Financial Administration

c. Applicable rules, regulations, and administrative directives and procedures issued by the following agencies relating to the financial transactions, accounting systems and controls, and operating procedures:

1) Department of Education

2) Office of the Governor

3) Department of Accounting and General Services

4) Department of the Attorney General

5) Department of Budget and Finance

6) Department of Personnel Services

d. Collective bargaining agreements affecting employees of the Department of Education.

e. Office of Education, Department of Health, Education and Welfare.

2. Audit Work Papers. The Contract Auditor shall, at any time during and subsequent to the completion of the audit, make available to the Department of Education for its inspection and review, the working papers developed during the audit, including among others, the following:

a. The audit program and internal control questionnaire.

b. The working trial balance.

c. Schedules, recommendations, computations, analyses, audit notes, confirmation letters and replies, and other data representing a record of work done in support of account transactions and balances, and procedures analysis.

d. Documents obtained and other working papers relating to the examination. The working papers shall not be made available to others except by mutual consent of the Department of Education and the Contract Auditor.

3. Discovery of Unusual Condition. If at any time during the examination of the accounts and systems of the Department of Education, the Contract Auditor discovers a deficiency in internal control or a financial transaction that is highly unusual or of such a nature as to require immediate correction or of such a character that to complete the examination a significant amount of time or resources beyond that initially contemplated by the parties to the audit contract would be required, the Contract Auditor shall immediately notify the Department of Education of his findings in writing. If the deficiency or transaction is of such a character requiring the expenditure of additional time or resources, the Contract Auditor shall include in the notification an estimate of the additional time and cost that would be required, and he shall proceed to complete the examination only upon written authorization of the Department of Education.

4. Preliminary Draft of Accountants' Report and Management Letter. The Contract Auditor shall prepare a preliminary draft of the accountants' report and management letter in such number of copies as requested and submit them to and discuss the same with the Department of Education. The Contract Auditor shall make the changes which are necessary to clarify or correct the findings and statements made in the preliminary draft of the accountants' report and management letter. The preliminary draft acceptable shall be submitted to the Department of Education for its review and comments. Upon request, the Contract Auditor shall meet with the Department of Education to discuss the preliminary draft of the accountants' report and management letter.

5. Final Draft of Accountants' Report and Management Letter. The Contract Auditor shall deliver copies of the final draft of the accountants' report and management letter to the Department of Education, as provided

in the audit contract. The Contract Auditor shall be considered to have completed all of the work required under his contract only upon delivery of the final draft of the accountants' report and management letter acceptable to the State.

E. Form and Content of Accountants' Report. The accountants' report shall be addressed to the Superintendent, Department of Education, State of Hawaii, and shall contain the following parts:

1. Title of Report. The title of the report shall be as follows:

State of Hawaii
DEPARTMENT OF EDUCATION

ESEA P.L. 95-561 TITLE I PROGRAM

Accountants' Report

(Date)

2. A foreword.

3. A table of contents.

4. An introduction consisting of:

   a. an explanation or statement of the purpose of the report;

   b. a brief description of the scope of the audit; and

   c. an outline of the organization of the material in the report.

5. A report on financial statements consisting of:

   a. a table of contents;

   b. a statement of the Contract Auditor's scope and opinion;

   c. financial statements; and

   d. supplementary statements, schedules and comments.

F. Form and Content of Management Letter. The management letter shall be addressed to the Superintendent, Department of Education, State of Hawaii, and shall contain the following parts:

1. A foreword.
2. A table of contents.
3. A statement of the Contract Auditor's scope and description of the contents of the management letter.
4. Disclosure of all significant findings.
5. Evaluation and recommendations.

## III. BUDGET AND TIME LIMITATIONS

A. Budget Limitations

1. The total sum to be allocated for conducting the audit shall be limited to the extent of funds encumbered for this purpose and the continued availability of such funds during the course of the audit.
2. The method of payment for services provided by the Contract Auditor, whether in lump sum or in increments, shall be agreed to mutually by the Contract Auditor and the Superintendent, Department of Education. Should progress or incremental payments be agreed upon as the method of payment, the following conditions shall apply:
   a. The amount of each progress payment shall be subject to agreement.
   b. Each request for progress payment shall be accompanied by a certified statement of the costs actually incurred, such costs to be displayed by appropriate categories.
   c. In no event shall the final payment be made except upon the delivery of the final draft of the accountants' report and management letter acceptable to the Department of Education and upon compliance by the Contract Auditor with the requirements of Section 103-53, Hawaii Revised Statutes, relating to tax clearance.

   The Department of Education reserves the right to determine and

prescribe such other conditions as are appropriate under which program payments shall be allowed.

B. Time Limitations. The timetable set forth below shall be followed to the closest extent possible. This timetable, however, may be modified by the Department of Education upon finding that such modifications would not jeopardize the successful completion of the audit.

Expected date for contract to be awarded .....

Expected date for commencement of audit .....

Expected date for submittal of preliminary draft ....

Expected date for submittal of final draft .....

## IV. PROPOSAL

In preparing his proposal for the audit, the Contract Auditor shall describe the following:

A. Methodology. The plan for and the approach, method, and procedure that the Contract Auditor intends to take in performing the audit. The proposed phases and steps to be followed and the tests and standards to be used in performing the work required shall be outlined.

B. Resources to be used. The resources that the Contract Auditor intends to commit to the work, including the name and qualifications of, the scope of the work contemplated for, and the amount of time to be devoted by each of the firm's personnel and that of any subcontractors who the firm intends to engage.

C. Time Period of Examination. The Contract Auditor's estimate of the time required to complete the work, including an estimate of the dates on which work can commence and a final report will be submitted.

D. Cost of Examination. The cost of audit shall be itemized by the following categories:

1. Category I

   a. P.L. 95-561 ESEA, Title I, Part A - including comparability

   b. P.L. 95-561 State Administration

   c. P.L. 89-750, Neglected or/Delinquent

   d. P.L. 89-750, Children in Adult Correctional Institutions

2. Category II

   a. P.L. 89-313, State Operated Programs for Handicapped Children

E. Submittal of Proposal

1. All proposals for conducting the audit as outlined herein shall be submitted to the State in three copies at the following address:

   Assistant Superintendent, Business
   Office of Business Services
   Department of Education
   State of Hawaii
   Honolulu, Hawaii 96813

2. Proposals shall be submitted to the State not later than 12:00 p.m. on_____.

## V. AWARD OF CONTRACT

Proposals shall be compared and the Contract Auditor selected on the basis of the following criteria:

A. The degree to which each proposal complies with the specifications.

B. The qualification and competency of each prospective consultant as reflected in the nature of its organization, its staff capabilities, its facilities, its past experience and its reputation.

C. The competencies that each prospective Contract Auditor intends to commit to the work.

D. The costs and anticipated benefits of each proposal.

E. Other criteria as deemed necessary by the Department of Education.

The Department of Education is not required to select that proposal which specifies the lowest price or cost. The Department of Education may make counterproposals to any proposal to obtain the most favorable terms. The Department of Education may reject all proposals when, in its opinion, none of the proposals meets the requirements of the specifications, the required competencies will not be brought to bear on the work required, the benefits to be derived are likely to be less than anticipated, or the rejection is otherwise in the best interest of the Department of Education. Upon rejection of all proposals, the Department of Education may call for new proposals, with or without modifications to the specifications.

Exhibit 7. (Illinois)

## AUDIT QUESTIONNAIRE

REGION | COUNTY

DISTRICT NAME AND NUMBER | PROJECT NUMBER

EXPLANATIONS (Indicate with number. Use back if needed.)

| | | |
|---|---|---|
| ☐ Yes | ☐ No | 1. Is this audit a separate audit as required by IOE? |
| ☐ Yes | ☐ No | 2. Does the audit cover the period as indicated on the Notification of Grant Award (IOE 66-01 or IOE 20-31)? |
| ☐ Yes | ☐ No | 3. Does the audit include a statement of liquidation of previous budget periods? If "No" explain. |
| ☐ Yes | ☐ No | 4. Does the audit include a project balance sheet? If "No" explain. |
| ☐ Yes | ☐ No | 5. Does the audit include a statement of project expenditures by line item and classification compared with the approved budget? If "No" explain. |
| ☐ Yes | ☐ No | 6. Was any total expense classification (contractual services, travel, material and supplies, other) of the approved budget over or under expended by more than 10% of the expense classification? Explanation of cause should be attached. |
| ☐ Yes | ☐ No | 7. Were federal funds expended for items not included in the approved budget? If "Yes" explain. |
| ☐ Yes | ☐ No | 8. Were funds encumbered prior to the approval of the Grant? If, "Yes" explain. |
| ☐ Yes | ☐ No | 9. Were encumbrances or obligations included in the report of expenditures actually incurred during the budget period for which the expenditures were claimed, and upon liquidation properly adjusted? If "No" explain. |
| ☐ Yes | ☐ No | 10. Was the same item reported as an expenditure in two or more budget periods (i.e. encumbrances in budget period and payment in another)? If "Yes" explain. |
| ☐ Yes | ☐ No | 11. Does the audit include a list of equipment authorized in the approved budget compared with equipment purchased? If "No" explain. (Title IV, ESEA) |
| ☐ Yes | ☐ No | 12. Were all inventory items costing $100.00 or more allocated an inventory number and was that number plainly affixed to each piece of equipment? If "No" explain. |
| | | 13. Was a register maintained of inventory items showing: |
| ☐ Yes | ☐ No | A. Date of purchase |
| ☐ Yes | ☐ No | B. Description |
| ☐ Yes | ☐ No | C. Cost |
| ☐ Yes | ☐ No | D. Location |
| | | If "No" explain. |
| ☐ Yes | ☐ No | 14. In your opinion are the internal control procedures in use adequate under the circumstances? If "No" give a brief description of the problem areas. |
| ☐ Yes | ☐ No | 15. Did you discover any irregularities in the handling of funds? |
| ☐ Yes | ☐ No | 16. Does your report include an unqualified opinion of the eligibility of expenditures under the approved project? If "No" explain. |
| | | 17. If you have denied an opinion or given a qualified opinion, state the reason briefly. |
| ☐ Yes | ☐ No | 18. Is the accounting system adequate and generally in accordance with the Illinois Financial Accounting Manual for Local School Systems or the Illinois Program Accounting Manual? If "No" describe deficiencies. |
| ☐ Yes | ☐ No | 19. Were federal funds invested? If "Yes" was the interest earned returned through IOE, to the federal agency involved. |
| ☐ Yes | ☐ No | 20. Does the audit include a description of the method and extent of tests, examinations and other techniques used in making the required verifications? (Title IV ESEA) |
| * ☐ Yes | ☐ No | 21. Were the attendance centers that were selected to receive Title I funds calculated correctly from the source data? |
| * ☐ Yes | ☐ No | 22. Did the source data document the information that was provided on the Comparability Report? |
| ☐ Yes | ☐ No | 23. Were all expenditures in the project of a supplementary nature? |
| ☐ Yes | ☐ No | 24. If recommendations were noted in the prior year audit, please detail how the district has implemented those recommendations. |

* *Title I, ESEA only.*

Exhibit 8. (Indiana)
Audit Checklist

I. Parent Advisory Council (PAC)

A. Interview with chairperson and/or member of the district PAC.

1. How many meetings are planned on a regular basis?

Answer: _____

2. How many meetings have been held to date this program year? Show minutes.

Answer: _____

3. Are members elected by the parents in the district? Are a majority parents of Title I participants? Demonstrate breakdown. How was election held?

Answer: _____

_____

_____

4. How were officers elected?

Answer: _____

_____

5. Have pertinent documents been provided to members? Which ones?

Answer: _____

6. Are parents aware of procedures for registering complaints and suggestions? Cite specific instances.

Answer: _____

7. In what ways did PAC advise LEA on planning, implementation and evaluation?

Answer: _____

_____

_____

8. Does [illegible] include members representing eligible but not participating children and schools? List example.

Answer: _____

_____

9. Have members of PACs been provided a training program by the LEA? Describe.

Answer: _____

_____

B. Interview each chairperson and/or member of school PACs.

1. Does the Title I project employ more than 1 F.T.E. staff member?

Answer: _____

_____

2. Does the Title I project serve more than forty (40) participants?

Answer: _____

Note: If answers to both (1) and (2) above are "No," ignore remaining questions of this section B. If either (1) or (2) is answered "Yes," then proceed. Both questions should be answered by the local Title I Contact Person.

3. Are members elected by parents in the attendance area? Are a majority parents of Title I participants? Demonstrate breakdown.

Answer: _____

_____

_____

4. Does Title I project serve 75 or more participants?

Answer: _____

Note: If answer to (4) is "No," ignore the remaining questions of this section B. If "Yes," then proceed.

5. Do the building councils consist of eight (8) or more members elected to serve for terms of two (2) years? Illustrate membership.

   Answer: _____

   _____

6. Do building councils elect officers after they have been formed?

   Answer: _____

   _____

## VIII. PARTICIPATION BY CHILDREN ENROLLED IN PRIVATE SCHOOLS

Objective

To ascertain that the LEA has implemented adequate management priorities and controls for assuring that the use of Title I resources for providing services to children in private schools is consistent with the requirements of legislative intent.

1. Interview the LEA project director to determine procedures in working with private schools. Determine if these procedures comply with Section 130.

Findings:

2. Interview the private school official and determine if they are knowledgeable concerning Title I.

Findings:

3. Review source documents to determine eligibility of private school children as to residence, test scores, needs.

Findings:

4. Verify if Title I equipment has been placed in the private school and ascertain its usage.

Findings:

5. Determine if the private school is participating in the PAC.

Findings:

Exhibit 10. (Kansas)
Audit Report: Selection of Participants (page 1 of 3)

**Selection of Participants**

1. Interview project director to determine procedures used to select participants. Compare this procedure to the selection criteria specified in the approved application.

   *FINDINGS:*
   Determining procedures.
   Same as specified in application
   Exceptions

   Comments:

2. Obtain a listing of participants in a project school and their test selection scores. Determine if the students were those who had the greatest need (lowest scoring children).

   *FINDINGS:*
   Students with greatest need selected.
   Yes
   No

   Comments:

3. Review test selection method to determine that children were not participating who have scored at or above the norm (50%, grade level equivalent, etc.).

   *FINDINGS:*
   All students participating are below the norm.
   Yes
   No

   Comments:

4. Determine if diagnostic testing was done to assess individual problems for project emphasis and content.

   *FINDINGS:*
   Was diagnostic testing done to assess individual needs?
   Yes
   No

   Comments:

   Test used.

**Staff**

1. Compare the project application personnel list to determine if those were the only persons receiving Title I payments.

   *FINDINGS:*
   Are positions specified accurate?
   Yes
   No

   Comments:

2. Determine that Title I paid personnel (professional non-professional) were used as supplemental and not replacement of general staff and or general aid.

   *FINDINGS:*
   Staff is supplemental and not supplantal.
   Yes
   Exceptions

   Comments:

3. Review the documentation of in-service training sessions to determine if joint training between aides and professional staff were conducted.

   *FINDINGS:*
   Joint in-service between aides and professionals.
   Yes
   Exceptions

   Comments:

## RECOMMENDATIONS

C. Size, Scope, Quality

1. Project application personnel list will be reviewed to determine if those were the only persons receiving Title I payments and compliance with the FTE specified.
Findings:

Action:

2. Title I personnel will be interviewed to determine if staff specified in the application was in compliance with duties allowed to be performed under P.L. 95-561
Findings:

Action:

3. Title I paid personnel (professional/non-professional) will be reviewed to ascertain if they were used as supplemental.
Findings:

Action:

4. The documentation of in-service training sessions will be reviewed to determine if joint training between aides and professional staff were conducted as well as the appropriateness and position effectiveness.
Findings:

Action:

Exhibit 12A. (New Mexico)
Quality Control Questionnaire

SAS 4 identifies nine elements of quality control that public accounting firms must consider in order to assure themselves that they have complied with generally accepted auditing standards when expressing an opinion on financial statements. The policies and procedures that individual firms develop to deal with these quality control elements are determined by such factors as the size and structure of the firm and its operating philosophy.

One factor that the State Auditor must consider in determining whether an audit has been conducted in accordance with generally accepted auditing standards will be the quality controls used by the independent auditor's accounting firm. The sample questionnaire on the following pages was drawn from the AICPA discussion draft, "Quality Control Policies and Procedures for Participating CPA Firms," issued April 1977 by the Special Committee on Proposed Standards for Quality Control Policies and Procedures. This form permits the accounting firm, whatever its size, to provide the State Auditor with basic evidence of its quality controls. However, the firm may submit to the State Auditor's Office its own document evidencing its review of quality controls if that document provides at a minimum the information covered in the sample questionnaire.

The quality control information is to be submitted only once a year, at the time the firm submits its first audit report for that fiscal year.

(Name of Public Accounting Firm)
Quality Controls In Effect
As of _____, 19____

I have reviewed the following policies and procedures that relate to quality controls and have indicated whether or not I believe each of the listed policies or procedures is being followed:

| Question | Yes | No | Notes or Comments |
|---|---|---|---|
| INDEPENDENCE | | | |
| 1. Communicate policies and procedures relating to independence of personnel at all organizational levels. | | | |
| a. Inform personnel of the firm's independence policies and procedures and advise them that they are expected to be familiar with these policies and procedures. | | | |
| b. Emphasize independence of mental attitude in training programs and in supervision and review of engagements. | | | |
| ASSIGNING PERSONNEL TO ENGAGEMENTS | | | |
| 1. Delineate the firm's approach to assigning personnel. | | | |
| a. Identify on a timely basis the staffing requirements of specific engagements. | | | |
| b. Prepare time budgets for engagements to determine manpower requirements and to schedule field work. | | | |
| c. Evaluate the qualifications of personnel as to experience, position, background, and special expertise. | | | |
| d. Plan the involvement by supervisory personnel. | | | |

| Question | Yes | No | Notes or Comments |
|---|---|---|---|
| e. Avoid situations where possible independence problems and conflicts of interest may exist, such as assignment of personnel to engagements for clients who are former employers or are employers of certain kin. | | | |
| f. Avoid assigning personnel to an engagement who have been assigned at that responsibility level on that engagement more than a specified number of times or a specified number of years. | | | |
| CONSULTATION | | | |
| 1. Identify areas and specialized situations where consultation is required. | | | |
| a. Maintain or provide access to adequate reference libraries and other authoritative sources. | | | |
| b. Provide an environment in which personnel are encouraged to seek counsel from designated specialists. | | | |
| c. Require documentation as to the considerations involved in the resolution of differences of opinion. | | | |
| SUPERVISION | | | |
| 1. Provide procedures for planning engagements. | | | |
| a. Assign responsibility for planning an engagement. Involve appropriate personnel assigned to the engagement in the planning process. | | | |
| b. Develop background information or review information obtained from prior engagements and update for changed circumstances. | | | |
| c. Describe matters to be included in the engagement planning process, such as the following: | | | |
| (1) Development of proposed audit programs. | | | |

| Question | Yes | No | Notes or Comments |
|---|---|---|---|
| (2) Determination of manpower requirements and need for specialized knowledge. | | | |
| (3) Development of estimates of time required to complete the engagement. | | | |
| 2. Provide procedures for maintaining the firm's standards of quality for the work performed. | | | |
| a. Provide adequate supervision at all organizational levels considering the training, ability, and experience of the personnel assigned. | | | |
| b. Develop guidelines for the form and content of working papers. | | | |
| 3. Provide procedures for reviewing engagement working papers and reports. | | | |
| a. Require that reviewers have appropriate competence and responsibility. | | | |
| b. Determine that work performed is complete and conforms to the firm's standards of quality. | | | |
| c. Describe documentation evidencing review of working papers and the reviewer's findings. | | | |
| d. Provide for review of the report by an appropriate individual having no other responsibility for the engagement. | | | |
| HIRING | | | |
| 1. Maintain a program designed to obtain qualified personnel. | | | |
| a. Plan for the firm's personnel needs at all levels and establish quantified hiring objectives based on current clientele, anticipated growth, personnel turnover, individual advancement, and retirement. | | | |
| b. Review hiring results periodically to determine whether goals and personnel needs are being achieved. | | | |

| Question | Yes | No | Notes or Comments |
|---|---|---|---|
| 2. Inform applicants and new personnel of the firm's policies and procedures relevant to them. | | | |
| a. Prepare and maintain a manual describing policies and procedures for distribution to personnel. | | | |
| PROFESSIONAL DEVELOPMENT | | | |
| 1. Establish guidelines and requirements for the firm's professional development program and communicate them to personnel. | | | |
| a. Establish continuing professional education requirements for personnel at each level within the firm. | | | |
| b. Provide personnel with professional literature relating to current developments in professional technical standards. | | | |
| c. Monitor continuing professional education programs and maintain appropriate records, both on a firm and an individual basis. | | | |
| d. Emphasize the importance of on-the-job training as a significant part of an individual's development. | | | |
| ADVANCEMENT | | | |
| 1. Establish qualifications deemed necessary for the various levels of responsibility within the firm. | | | |
| a. Prepare guidelines describing responsibilities at each level and expected performance and qualifications necessary for advancement of each level. | | | |
| b. Use a personnel manual or other means to communicate advancement policies and procedures to personnel. | | ✓ | |
| c. Gather and evaluate information on performance of personnel. | | | |

| Question | Yes | No | Notes or Comments |
|---|---|---|---|
| ACCEPTANCE AND CONTINUANCE OF CLIENTS | | | |
| 1. Establish procedures for evaluation of prospective clients and for their approval as clients. | | | |
| a. Communicate with the predecessor auditor as required by auditing standards. | | | |
| b. Evaluate the firm's independence and ability to service the prospective client. In evaluating the firm's ability, consider needs for technical skills, knowledge of the industry, and personnel. | | | |
| c. Inform personnel of the firm's policies and procedures for accepting clients. | | | |
| INSPECTION | | | |
| 1. Determine the inspection procedures necessary to provide reasonable assurance that the firm's other quality control policies and procedures are operating effectively. | | | |

_____ _____
(Auditor) (Date)

Exhibit 12B (New Mexico) (page 1 of 3)

STATE AUDITOR'S OFFICE
AUDIT PROGRAM

SCHOOLS

Client: _____ Period Ended _____

| | W/P Index | Done By | Period or Extent of Examination and Remarks |
|---|---|---|---|
| **Planning the Audit** | | | |
| 1. Assignment made by audit manager or supervisor. | | | |
| A. Engagement letter. | | | |
| B. First notification to client. | | | |
| 2. Preliminary work. | | | |
| A. Review prior year: | | | |
| (1) Audit report | | | |
| (2) Work papers | | | |
| (3) Internal control study and evaluation | | | |
| (4) Audit program | | | |
| (5) Permanent file | | | |
| B. Review correspondence file. | | | |
| C. Review statutory provisions. | | | |
| A. Update permanent file with pertinent statutes. | | | |
| D. Start permanent file on new clients. | | | |
| 3. Pre-audit conference with audit manager or supervisor. | | | |
| A. Second notification to client. | | | |
| 4. Pre-audit conference with client. The following matters should be discussed at this meeting. | | | |
| A. Engagement letter. | | | |
| B. Current economic climate (national, state, and local) and effect on client's operations. | | | |
| C. Significant changes in client's operations, accounting system, accounting principles, personnel, etc. Are the books in balance and up to date? | | | |
| D. Client's financial statements. What is the basis of accounting? | | | |

This is a suggested audit program that is to be used in developing a tailored audit program. This audit program does not constitute an all-inclusive audit program.

STATE AUDITOR'S OFFICE
AUDIT PROGRAM

Exhibit 12B (page 2 of 3)

Client:_____ Period Ended_____

| | W/P Index | Done By | Period or Extent of Examination and Remarks |
|---|---|---|---|
| Planning the Audit (cont'd) | | | |
| L. Current developments with respect to audit concerns or problems encountered in prior fiscal year examination. | | | |
| F. Disposition of prior fiscal year recommendations. | | | |
| G. Potential effect of recent pronouncements of AICPA. | | | |
| H. Possible opinion qualification due to restrictions, if any, placed by client on our work or known departure from GAAP. | | | |
| I. Reporting requirements and deadlines. | | | |
| J. Dates for interim examination, inventory observations, etc. | | | |
| K. If applicable, coordination with client's internal audit staff. | | | |
| L. Assistance of client's personnel in preparing work papers. | | | |
| M. Date client needs to have report. | | | |
| N. Working space and access to building. | | | |
| O. Tour of client's physical facilities. | | | |
| P. Type of record keeping employed (manual or some form of automated system). | | | |
| Q. Relationship with other governmental units that may affect the audit. | | | |

STATE AUDITOR'S OFFICE
AUDIT PROGRAM

Exhibit 12B (page 3 of 3)

Client: _____ Period Ended _____

| | W/P Index | Done By | Period or Extent of Examination and Remarks |
|---|---|---|---|
| Planning the Audit (cont'd) | | | |
| 5. Second pre-audit conference with audit manager or supervisor. | | | |
| A. Audit significance of items discussed at meeting with client. | | | |
| B. Nature, timing and extent of audit procedures in critical audit areas. | | | |
| C. Applicability of statistical sampling techniques. | | | |
| D. Number of auditors required. | | | |
| 6. After the second pre-audit conference, prepare the audit planning memorandum, summarizing the pre- audit conferences. | | | |
| 7. Obtain the audit manager's or supervisor's approval of the audit program and time budget. (This step to be completed after the audit program and time budget have been prepared.) | | - | |

Exhibit 13A. (North Carolina) (page 1 of 2)

Audit From

SCHEDULE , PAGE

DATE , AUDITOR

RECORDS TO BE OBTAINED FROM STATE OFFICE

| | Secured By: |
|---|---|
| Statement of cash receipts and disbursements: | |
| Xerox copy of project ledger cards | |
| ROPT's | |
| Statement of budget disbursements and obligations outstanding: | |
| Xerox copy of budget | |
| Xerox copy of all amendments | |
| Final financial completion report | |
| List of outstanding obligations at state level | |
| Salary Analysis: | |
| Certification that instructional personnel paid correct amounts - spot at least 6 months | |
| List of all personnel or payroll, position, salary | |
| Target Area Selection: | |
| Copies of pages 1 and 2 of Project Application | |
| Maintenance of Effort: | |
| Copies of pages from Statistical Profiles | |
| Selection of Participants: | |
| Copy of page 8 from project application | |
| Copy of Statement by Agencies providing Services in coordination with Title I Activities from project application | |
| Copy of Project Narrative - Selection Criteria from project application application | |

Project Information - Information sheet from correspondence file.

## INFORMATION OR DOCUMENT OBTAINED AT LEA

| AVAILABLE | NOT AVAILABLE | |
|---|---|---|
| | | 1. Accounting Records, Ledger Cards. |
| | | 2. Logs to document expenses. |
| | | 3. Bank Statements for project period. |
| | | 4. Deposit slips and reconciliation. |
| | | 5. List of outstanding obligations. |
| | | 6. Payroll data records. |
| | | 7. Time records for prorated positions. |
| | | 8. Supplement schedules and minutes of board approvals. |
| | | 9. Increment schedules for principals. |
| | | 10. Workmen's compensation policy. |
| | | 11. List of participating children. |
| | | 12. List of children eligible for free lunches. |
| | | 13. Principals monthly report for Sept., Oct., or Nov. (MIS-601) |
| | | 14. Equipment control records. |
| | | 15. Mobile units locations. |
| | | 16. PAC chairman's name and address. |
| | | 17. CPA Report. |

Explain any records not available: _____

Exhibit 13B. (North Carolina) 

AUDITOR'S QUESTIONAIRE -- LEA Superintendent

SCHEDULE , PAGE _____

DATE_____ AUDITOR_____

In general conversation include at least the following?

SUPERINTENDENT

1. Does the SEA Auditor have the cooperation and permission of the LEA Superintendent to:

   A. Interview, Seek Information and assistance from personnel in the LEA in connection with ESEA Title I operations?

   Findings: Yes _____ No _____

   Comments:

   B. Review accounting records, project records, files, documents and other materials maintained by the LEA relating to the ESEA Title I project?

   Findings: Yes _____ No _____

   Comments:

2. Determine name and proper title of person(s) directly responsible to the LEA Superintendent for the conduct and operation of ESEA Title I programs.

   Findings:

3. Has the Superintendent assigned duties to the Director of the ESEA Title I program other than those directly related to the program?

   Findings: Yes _____ No _____

   Comments:

4. What are these additional duties assigned in item 3 above?

   Findings:

5. Has the Superintendent instructed that salaries be prorated accordingly?

   Findings: Yes _____ No _____

   Comments:

SCHEDULE , PAGE

DATE , AUDITOR

AUDITOR'S QUESTIONAIRE CONTINUED:

6. Will the Superintendent be available for a conference (exit Conference) at the completion of the on-site audit?

Findings: Yes _____ No _____

Comments:

Exhibit 13C. (North Carolina)

AUDITOR'S QUESTIONAIRE--LEA Director

| SCHEDULE , PAGE _____ |
| --- |
| DATE_____, AUDITOR_____ |

DIRECTOR



1. What are the duties assigned to this position?

   Findings:

2. Is this a full-time position, if not, does the Director prorate his salary and keep time records?

   Findings: Yes _____ No _____

   Comments:

3. Are lists of students participating and target schools available?

   Findings: Yes _____ No _____

   Comments:

4. Are these lists (item 3 above) complete and accurate?

   Findings: Yes _____ No _____

   Comments:

5. Are names and duties of Non-Instructional staff available?

   Findings: Yes _____ No _____

   Comments:

6. Are project files well organized?

   Findings: Yes _____ No _____

   Comments:

7. Are inventory records available?

   Findings: Yes _____ No _____

   Comments:

AUDITOR'S QUESTIONAIRE

SCHEDULE , PAGE

DATE , AUDITOR

DIRECTOR (CONTINUED)

8. Are accounting records organized?
   Findings: Yes_____ No_____
   Comments:

9. Are records available to support maintenance of fiscal efforts?
   Findings: Yes_____ No_____
   Comments:

10. Are records available to support school attendance area selection?
    Findings: Yes_____ No_____
    Comments:

11. Are records available to support selection of participants?
    Findings: Yes_____ No_____
    Comments:

12. Are records available to document Private School participation?
    Findings: Yes_____ No_____
    Comments:

SECTION 127(A)

"Sec. 127. (a) RECORDKEEPING.—Each local educational agency which receives funds under this title shall keep such records and afford such access thereto as the State educational agency shall prescribe, including records which fully disclose the amount and disposition of such funds, the total cost of programs and projects in connection with which funds are used, the amount of the portion of the cost of the program or project supplied by other sources, and such other records as will facilitate an effective audit. Whenever a local educational agency carries on a single compensatory education program paid for out of funds under this title as well as State or local funds which meets all of the requirements of this title and whenever, under section 131, the local educational agency excludes expenditures from State and local sources in determining compliance with section 126 (b) and (e), the State educational agency need not require the Federal funds to be accounted for separately. In any proceeding, State or Federal, for the recoupment of any such funds which were misspent or misapplied, the percentage of the funds so misspent or misapplied which shall be deemed to be Federal funds shall be equal to the percentage of the funds used, or intended for use, for the program or project which were Federal funds.

Schedule Page_____
Date_____ Auditor's Initials___

Exhibit 13D (page 2 of 4)

The audit of _____ has been performed in accordance with generally accepted auditing standards upon the operation of this grantee for conformance with the compliance with the legal and regulatory requirements.

The grantee has/has not met compliance with Section _____.

Auditor's Statement:

A. Compliance item(s) tested: _____

_____

_____

_____

B. The nature of the test(s) performed: _____

_____

_____

_____

C. The extent of the test(s): _____

_____

_____

_____

D. The results:_____

_____

_____

_____

SECTION 134

"Sec. 134. Notwithstanding any provision of subpart 3 of this part, personnel paid entirely by funds made available under this may be assigned to certain limited, rotating, supervisory duties not related to classroom instruction, the benefits of which are not limited to participating children under this title. Such duties may include only those to which similarly situated personnel not hired with funds made available under the title are assigned at the same school site, and for which such similarly situated personnel are paid, and may not exceed the same proportion of total time as similarly situated personnel at the same school site, or 10 per centum of the total time, whichever is less."

| Schedule | Page_____ |
|---|---|
| Date_____ | Auditor's Initials___ |

Exhibit 13D (page 4 of 4 )

The audit of _____ has been performed in accordance with generally accepted auditing standards upon the operation of this grantee for conformance with the compliance with the legal and regulatory requirements.

The grantee has/has not met compliance with Section _____.

Auditor's Statement:

A. Compliance item(s) tested: _____

_____

_____

_____

B. The nature of the test(s) performed: _____

_____

_____

_____

C. The extent of the test(s): _____

_____

_____

_____

D. The results:_____

_____

_____

_____

Audit Procedures

15. Comparability

a. Compare Title I schools identified on the comparability report with the Title I schools listed on the approved application to verify uniformity.

FINDINGS:

b. Review the LEA's grouping of schools for adherence to regulations.

FINDINGS:

c. Review the LEA's comparability working papers for mathematical accuracy.

FINDINGS:

d. Review sample of enrollment data, employee records, payroll records, salary schedules, personnel schedules, etc., to determine if comparability was computed as required by regulations.

FINDINGS:

## Exhibit 15. (South Dakota) - Audit Report



### 3. EXPENDITURES RELATED TO RANKING OF PROJECT AREAS AND SCHOOLS

Section 124(e)
"A local educational agency may receive funds under this title only if such funds are allocated among project areas or schools for programs and projects assisted under this title on the basis of the number and needs of children to be served as determined in accordance with section 123."

____ NOT APPLICABLE - LEA serves only one elementary and/or secondary Title I attendance area

| Compliance Status of Expenditures Related to Ranking | NA | Yes | No |
|---|---|---|---|
| a. The LEA has provided Title I staff and resources for instructional and supporting services on the same basis in each project area or school, or | __ | __ | __ |
| b. The LEA has equitably allocated funds among project areas on the basis of the number of children served | __ | __ | __ |

| Dollar Allocation Summary | | | | Summary Comparison of Staffing Ratio | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | READING | | | | MATH | | | |
| Dollars Per School | Particip. Dup. Count | Dollars Per Parti | Attendance Area or School | Eligib. Enroll. | Needs | Partic. | FTE | Ratio | Needs | Partic. | FTE | Ratio |
| | | | | | | | | | | | | |
| | | | | | | | | | | | | |
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| | | | | | | | | | | | | |
| | | | TOTALS/AVERAGES | | | | | | | | | |

Notes and Narrative Data:

## 4. EVALUATION

Section 124(g)
"A local educational agency may receive funds under this title only if —
"(1) effective procedures are adopted for evaluating, in accordance with the evaluation schedule promulgated by the Commissioner under section 183(g), the effectiveness of the programs assisted under this title in meeting the special educational needs of educationally deprived children;
"(2) such evaluations will include, during each three-year period, the collection and analysis of data relating to the degree to which programs assisted under this title have achieved their goals, including the requirements of section 130, and will also include objective measurements of educational achievement in basic skills over at least a twelve-month period in order to determine whether regular school year programs have sustained effects over the summer; and
"(3) the evaluation will address the purposes of the programs, including the requirements of section 130, and the results of the evaluations will be utilized in planning for and improving projects and activities carried out under this title in subsequent years."

| Compliance Status of Evaluation | Yes | No |
|---|---|---|
| a. Representativeness of evaluation findings: Conclusions apply to the persons or schools served by the project | ___ | |
| b. Reliability and validity of instruments and procedures: | | |
| 1. They consistently and accurately measure the objectives of the project | ___ | |
| 2. They are appropriate considering factors such as age or background of persons served by the project | ___ | |
| c. The evaluation procedures minimize chance for errors: | | |
| 1. The instruments are properly admininstered | ___ | |
| 2. Scoring and transcription of the data is accurate | ___ | |
| 3. Analysis procedures used are appropriate for the assumptions from the data | ___ | |
| d. Valid assessment of achievement gains in: | | |
| 1. Reading, Math, and Language Arts in grades 2-12 | ___ | |
| 2. Language Arts does not include a project designed to teach English to non-English speaking children | ___ | |
| e. Appropriate procedures to evaluate sustained gains are included in the evaluation plan | ___ | |

Notes and Narrative Data:

Evaluation Instrument and Schedule Summary:

| Name of Test | Grades Tested | Testing Dates Pre | Post |
|---|---|---|---|
| | | | |
| | | | |
| | | | |
| | | | |

NCE gains for two previous years:

FY_____: Reading_____; Math_____; L.A._____

FY_____: Reading_____; Math_____; L.A._____

Exhibit 16. (Tennessee) (page 1 of 2)

Audit Report

| D SUPPLEMENTAL USE OF FUNDS AND COMPARABILITY SERVICES | Date | Auditor's Initials | W.P. Ref. |
|---|---|---|---|
| 1. Obtain copies of comparability studies and other information submitted to the SEA to show that State and local funds are used to provide target schools services comparability to services in nontarget schools. Evaluate the reasonableness of the information considering the policies identified in step 1 and determine whether: (116a.26) | | | |
| a. data meets the minimum requirements of Title 1 regulations regarding comparability of teacher-pupil ratios and per pupil expenditures. (116a.26 (e) | | | |
| b. data is readily supportable by records of expenditures, personnel assignments, and pupil attendance. | | | |
| 2. Test the validity of information obtained in the above steps at selected target schools, and non-target schools serving the same grade levels. Obtain from school records and discussions with school principals and teachers information for making an independent comparison of staffing. Document and disparties. | | | |
| 3. Determine that training provided to specialists, classroom teachers, and aides is directly educationally deprived children (116a.36 (a) | | | |

| | Date | Auditor's Initials | W.P. Ref. |
|---|---|---|---|
| 4. Determine that no services generally provided to all children are paid for from Title 1 funds (116.40) | | | |
| 5. Determine whether the LEA considered in it's application benefits which may have been available through other public and private agencies which would contribute toward meeting the needs of educationally deprived children (116.41) | | | |
| 6. Obtain copies of LEA records that will show personnel assigned to target schools and the sources of funds used to pay salaries at the schools for the period under review. Determine the extent the use of Title 1 funds actually increased the level of staffing at the target schools as opposed to merely funding positions previously financed with State and local funds. Did Title 1 pay for the excess cost of services provided to participants or replace State and local funding? (116.40) | | | |
| 7. Evaluate any findings in light of information submitted to SEA with the LEA's project application. The auditor should conclude whether (1) the information was sufficient to assure the SEA that Title 1 funds would not be used to supplant State and local funds, (2) the LEA provided comparab;e services in target schools, and (3) the project was implemented in the manner described in the project application. (116.40) | | | |

EXCESS COST-SUPPLEMENT/SUPPLANT

1. Title I expenditures are used to provide only services that the applicant is not required to provide with state and local funds.

Yes_____ No_____ N.I._____ W.P._____

2. Title I funds have not been used to fund programs which replace similar programs supported in previous year by non-federal funds.

Yes_____ No_____ N.I._____ W.P._____

3. Title I funds are not providing any services, including services provided under a special program, that is the same as or similar to a service required by law.

Yes_____ No_____ N.I._____ W.P._____

4. Are Title I employees restricted from substituting for regular personnel absences?

Yes_____ No_____ N.I._____ W.P._____

5. The total Title I instructional time per child does not exceed 20% of the total instructional time computed on a per day, per week, per month, per year basis.

Yes_____ No_____ N.I._____ W.P._____

WEST VIRGINIA BOARD OF EDUCATION RECOMMENDED INSTRUCTIONAL TIME PER DAY

| Grade K-3 | | Grade 4-6 | | Grade 7-12 | |
|---|---|---|---|---|---|
| Per Day 315 Minutes | 20% = 63 Minutes | Per Day 345 Minutes | 20% = 69 Minutes | Per Day 375 Minutes | 20% = 75 Minutes |

Documents Reviewed:

Exhibit 17 (page 2 of 2)

Comments:

## References


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Bessey, B. L., Brandt, D. A., Thompson, P. A., Harrison, L. R., Putman, K. E., & Appleby, J. A. A study of state management practices: Looking back at Title I and toward Chapter 1. Final Report. Palo Alto, CA: American Institutes for Research, 1982. (AIR-857-8/82-FR)

Committee on Education and Labor, U.S. House of Representatives. A report on the Education Amendments of 1978, H.R. 15. Report No. 95-1137. Washington, DC: U.S. Government Printing Office, 1978.

Committee on Education and Labor, U.S. House of Representatives. Hearing on Title I, ESEA Regulations, H. Res. 423. Washington, DC: U.S. Government Publishing Office, 1979.

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Comptroller General of the U.S. Standards for audit of governmental organizations, programs, activities and functions. Washington, DC: General Accounting Office, 1981.

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ESEA Title I Program Directive: Monitoring and Enforcement Plan for Title I, ESEA. Memorandum from USOE to CSSO, No. Inst. A203-8, 3 April 1979.

Financial Management Branch. Questions and answers on the single audit provisions of OMB Circular A-102 "Uniform Requirements for Grants to State and Local Governments." Washington, DC: Office of Management and Budget, 1981.

Goettel, R. J., Kaplan, B. A., & Orland, M. E., A comparative analysis of ESEA Title I administration in eight states. Syracuse, NY: Syracuse Research Corporation, 1977.

Hill, P. T. Enforcement and informal pressure in the management of federal categorical programs in education. Santa Monica, CA: The Rand Corporation, 1979.

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Reed, V. E., Compliance requirements for audits of ED federal aid programs. Washington, DC: Division of Elementary and Secondary Education, U.S.E.D., February 1982.

Robinson, V. The clouded crystal of education audits: States to set compliance rules under new education law. Education Times, 1982, 3 (11), 4.

Task Force on Guidelines for Financial and Compliance Audits of Federally Assisted Programs. Working draft: Audit guide for audits of grants-in-aid to state and local governments. Washington, DC: General Accounting Office, March 1982.

U.S. Department of Education. Chapter 1 Handbook: Non-regulatory guidance to assist state educational agencies in administering federal financial assistance to local educational agencies for projects designed to meet the special educational needs of educationally deprived children under the Education Consolidation and Improvement Act of 1981. Washington, DC: U.S. Department of Education, April 1982.

## APPENDIX A

### Sources of Information on Exemplary Materials

Educ. Program Dir. Chapter 1
Arizona Dept. of Education
1535 W. Jefferson St.
Phoenix, AZ 85007

Asst. Supt. for Compensatory Educ.
California Dept. of Education
721 Capitol Mall, 3rd floor
Sacramento, CA 95814

Supervisor, Chapter 1
Colorado Dept. of Educ.
201 East Colfax Street
Denver, CO 80203

Director, Compensatory Education
Georgia Dept. of Education
State Office Building
Atlanta, GA 30334

Education Specialist, Disadvantaged
Hawaii Dept. of Education
1270 Queen Emma St., Room 1002
Honolulu, HI 96813

Manager, Compensatory Educ. Sect.
Illinois Dept. of Education
100 North First Street
Springfield, IL 62777

Director, Chapter 1 ECIA
Indiana Dept. of Publ. Instr.
State House, Room 229
Indianapolis, IN 42604

Chief, Chapter 1 ECIA
Iowa Dept. of Public Instr.
Grimes State Office Bldg.
Des Moines, IA 50319

Coord., State & Fed. Pgms. Admin.
Kansas Dept. of Education
120 East 10th Street
Topeka, KS 66612

Coordinator, Chapter 1
Missouri Dept. of Elem. & Sec. Educ.
P. O. Box 480
Jefferson City, MO 65102

Director, Chapter 1
Nebraska Dept. of Education
P. O. Box 94987
Lincoln, NE 68509

State Director, Chapter 1
New Mexico Dept. of Education
Education Building
Santa Fe, NM 87501

Director, Compensatory Education
North Carolina Dept. of Publ. Instr.
Education Building
Raleigh, NC 27602

Director, Compensatory Educ.
Oklahoma Dept. of Education
2500 North Lincoln
Oklahoma City, OK 73015

Coordinator, Chapter 1 ECIA
Div. of Elementary & Secondary Educ.
State Office Building #3
Pierre, SD 57501

Director, Compensatory Education
Tennessee Dept. of Education
Room 111, Cordell Hull Bldg.
Nashville, TN 37219

Director, Compensatory Education
West Virginia Dept. of Education
Capitol Complex, Rm. 252, Bldg. 6
Charleston, WV 25304